Vol. I

TRANSCRIPT OF RECORD

(Pages 1 to 56)

Supreme Court of the United States

OCTOBER TERM, 1946

No. 755

IRA J. McCULLOUGH, PETITIONER,

vs.

KAMMERER CORPORATION AND BAASH-ROSS TOOL COMPANY

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

PETITION FOR CERTIORARI FILED DECEMBER 6, 1946.

CERTIORARI GRANTED FEBRUARY 3, 1947.

No. 11122

IN THE

United States Circuit Court of Appeals

FOR THE NINTH CIRCUIT

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION and BAASH-ROSS TOOL COMPANY,

Appellees.

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION and BAASH-ROSS TOOL COMPANY,

Appellees.

TRANSCRIPT OF RECORD

Upon Appeals from the District Court of the United States for the Southern District of California, Central Division

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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matter appearing in the original certified record are printed literally in italics; and likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible an omission from the text is indicated by printing in italics the two words between which the omission seems to occur.]

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In the United States District Court
Southern District of California
Central Division

Equity No. 751-Y

KAMMERER CORPORATION, a Corporation, et al.,
Plaintiffs,

vs.

IRA J. McCULLOUGH, et al.,
Defendants.

Equity No. 1238-Y

KAMMERER CORPORATION, a Corporation, et al.,
Plaintiffs,

vs.

IRA J. McCULLOUGH, et al.,
Defendants.

MOTION FOR MODIFICATION OF INTERLOCUTORY JUDGMENTS, TO STAY ACCOUNTINGS, AND FOR FINAL JUDGMENTS DISMISSING COMPLAINTS

Now comes defendant Ira J. McCullough and moves this Court for modifications of its Interlocutory Judgments herein, dated June 28, 1941, in finding the patent in suit valid and infringed, by eliminating from each of such Interlocutory Judgments paragraphs VI and VII thereof (R. 121, 122, 125, 126, providing for accountings of and for [2] payment by defendant to plaintiffs of profits and damages for patent infringement, with costs of suits) for a stay of the accountings, and for Final Judgments providing that the plaintiffs have used the patent in suit contra to the public interest, and that the complaints be dismissed with costs to defendant.

The grounds for this motion are that plaintiffs have used the patent in suit contrary to the public interest and in restraint of trade, for which reasons they come into a Court of Equity with "unclean hands" and are not entitled to accountings of profits and damages for patent infringement.

The plaintiffs entered into a license agreement which is in evidence as Plaintiffs' Ex. 7 (R. 179, 854), and a copy of which is attached hereto and marked Exhibit "A". Under this license agreement plaintiffs have been using this patent against the public interest and in restraint of trade to:

(1) Suppress the use of competing devices.

(2) Suppress the sale of the patented device by both the patent owner and licensee.

(3) Fix prices for the use of the patented device, which require the use of an unpatented commodity.

The Reilly and Stone patent in suit, which this Court found valid and infringed (39 F. Supp. 213), expired on April 18, 1944, and the injunction terminated on that date. That opinion is not now here questioned. Validity and infringement having been found, the only remaining issue is whether plaintiffs, because of the misuse of the patent, are entitled to accountings, as provided for in paragraphs VI and VII of the Interlocutory Judgments entered in this Court, or whether the complaints should be dismissed with costs to defendant. [3]

The mandate of the Circuit Court of Appeals for this Circuit provides that this Court may entertain this motion. The defendant moved said Circuit Court of Appeals for a modification of its decree dated October 18,

1943, affirming this Court in finding the patent in suit valid and infringed by eliminating from such decree any affirmance of the aforesaid paragraphs VI and VII of the Interlocutory Judgments of this Court and/or for permission to apply to this Court to reform said Interlocutory Judgments and stay the accountings. The Circuit Court of Appeals granted the second alternative of the motion and ordered that the cause be remanded to this Court and that this Court may entertain a motion based upon the aforesaid contentions to modify or set aside its orders for damages and accountings thereof, and take such action thereon as it may determine.

That this Court has power to modify its own interlocutory judgments is undeniable.

At the hearing defendant will rely on the proceedings in this Court, in the United States Circuit Court of Appeals for the Ninth Circuit, and in the United States Supreme Court, the transcript of record, and particularly the above mentioned license agreement between plaintiffs (Pltffs's. Ex. 7), and the following points and authorities.

For the convenience of the Court, two copies of Vols. I, II, and IV of the Transcript of Record upon appeals in these cases are being deposited with the Clerk of the above entitled Court. The pages of the Record referred to herein refer to said printed Transcript of Record.

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
315 West Ninth Street
Los Angeles 15, California
Attorneys for Defendant Ira J. McCullough [4]

EXHIBIT "A"

PLAINTIFF'S EXHIBIT NO. 7

LICENSE AGREEMENT

This Agreement, made and entered into this 18th day of October, 1923, by and between Kammerer Corporation, a corporation organized and existing under and by virtue of the laws of the State of California, with its principal place of business at Santa Fe Springs, County of Los Angeles, State of California, hereinafter referred to as the Licensor, and L. F. Baash Perforating Company, a corporation, organized and existing under and by virtue of the laws of the State of California, with its principal place of business at Brea, County of Orange, State of California, hereinafter referred to as the Licensee,

Witnesseth:

That, Whereas, the Licensor is the sole owner of Letters Patent No. 1,277,660,* covering Tools for Cutting and Removing Pipe From Wells, and of that certain application for Letters Patent of the United States, Serial No. 652,511, covering Tools for Cutting and Removing Pipe From Wells, which said application was filed on the 19th day of July, 1923;† and

Whereas, the Licensor has and does hereby warrant that it is the sole owner of the aforesaid inventions and all rights thereto; and

Whereas, the Licensee is desirous of obtaining a license to and for the said inventions and any Letters Patent

*Probably misprint in record as correct number of Kammerer Patent is 1,277,600.

†This is the application for the Reilly and Stone Patent in suit.

which may be granted on said application to the Licensor; [5]

Now, Therefore, for and in consideration of their respective covenants and agreements hereinafter contained, and of the full and faithful performance of each and every thereof, the parties hereto have and do hereby mutually agree as follows;

1. The Licensor hereby grants to the Licensee the exclusive right and license to manufacture and use, but not to sell, devices embodying the aforesaid inventions under any Letters Patent now granted or which may hereafter be granted on any applications now pending or any patents hereafter obtained on improvements on the device or devices above mentioned, throughout the United States of America and the territories thereof, said license to continue for the full term of any Letters Patent granted for said inventions or improvements thereon.

2. The Licensee covenants and agrees during the term of this license to pay the Licensor hereunder upon all devices embodying the aforesaid inventions, a royalty of fifty percent (50%) of the gross earnings accruing by the use of said devices by the Licensee.

3. The Licensee covenants and agrees during the term of this license to charge as a rental for the use of said device or devices the sum of One Hundred and Ninety Dollars ($190.00) per cut made by said device or devices.

4. The Licensee agrees to keep true and accurate books of account showing in detail the number of devices embodying the aforesaid invention manufactured by the Licensee, together with the dates of the use thereof and the names of the parties to whom the same were rented

or upon whose property the same were used, which books of account shall be open at all usual business hours for the inspection of the Licensor or its duly authorized agents. The Licensee further agrees to render to the Licensor on or before the fifteenth day of each and every calendar month during the term of this license, a true and correct statement in writing, setting forth [6] the quantity of said devices manufactured by the Licensee during the preceding calendar month, together with a statement showing the dates of the use or rental thereof and the number of cuts made and the parties for whom the device or devices were used during the preceding calendar month.

5. The Licensee covenants and agrees to pay to the Licensor at its office at Santa Fe Springs, Los Angeles County, California, the royalties on the cuts reported in the statements hereinabove provided within thirty-six days after the statements are rendered.

6. It is hereby mutually covenanted and agreed by and between the parties hereto that any accounts of business done under this agreement by the Licensee, which are not paid within six (6) months from the time the statements of such business are rendered to the Licensor as hereinbefore provided, shall be considered bad accounts and any royalties which may have been paid on such business shall be deducted from the royalty account of the Licensor.

It is further agreed that at the time of making any such deduction the Licensor shall have the right to take over the collection of such account or accounts by so notifying the Licensee and that for the purpose of collection the Licensor may use the Licensee's name and that for every such account collected by the Licensor,

the Licensor may retain in addition to its royalty, all costs of collection.

It is further understood and agreed that whenever the Licensor has refunded the royalty on any non-collectible account and the Licenses thereafter makes collection of said account, that the Licensee shall repay the royalty theretofore refunded.

It is further understood and agreed that the Licensee will cooperate with the Licensor by furnishing the necessary evidence to prove the account on such claims as the Licensor undertakes to collect [7] pursuant to this agreement.

7. The Licensee covenants and agrees that in the manufacture of devices under this license agreement it will stamp on all such devices so manufactured the word "Patented", together with the date of said patent or patents.

8. The Licensor agrees to diligently prosecute the aforesaid application for Letters Patent, Serial No. 652,511, and procure Letters Patent covering said invention, if possible, at the earliest date, and the Licensor agrees to indemnify and save harmless the Licensee against any and all liability, damage, loss or injury adjudged or sustained by reason of any claim or suit that said device constitutes an infringement upon any Letters Patent heretofore or hereafter granted; provided, however, that in case suit is brought against the Licensee, the Licensor shall be given notice thereof and shall have opportunity to intervene and defend said claim or suit.

9. The Licensee hereby covenants and agrees that the Licensor shall have, and it is hereby given, a first lien on all devices manufactured under this agreement as and

for security for the payment to the Licensor of all unpaid royalties which may accrue during the term of this agreement.

10. It is hereby mutually covenanted and agreed by and between the parties hereto that should the Licensee become bankrupt or be thrown into the hands of a receiver or receivers, then and in that event the Licensor shall have the option to purchase all of the devices manufactured by the Licensee under the terms of this agreement at the agreed price of three hundred ($300.00) Dollars, for each and every such device, and in payment for such devices the Licensor shall deduct from the purchase price the amount of its lien or liens for unpaid royalties and pay the remainder, if any there be, to the Licensee's trustee in bankruptcy or receiver or receivers. [8]

11. The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement.

12. The Licensor covenants and agrees that during the term of this agreement, not to manufacture, sell, rent, license, use, or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement.

13. It is mutually covenanted and agreed that this license shall be assignable by the Licensee only upon the written consent of the Licensor, its successors or assigns.

14. It is further covenanted and agreed that the Licensee shall manufacture and use the required number

of devices necessary to take care of the demand for said devices amongst the operators in the oil-fields of the United States of America. And in the event the Licensee shall fail or neglect to furnish the devices necessary to take care of the demand of the oil operators in any or all of the oil-fields of the United States of America, the Licensor may serve notice on the said Licensee to manufacture and furnish devices to the operators of any or of all of the oil-fields of the United States and if within one hundred twenty (120) days after such notice has been served upon the Licensee, the Licensee still fails or neglects to furnish devices in any or all of the oil-fields of the United States where there is demand therefor, then and in that event, the Licensor may manufacture and use, or license others to manufacture and use, the devices covered by this license agreement, in such oil-fields where the Licensee shall have failed to supply the demand for such devices, provided, however, that nothing in this paragraph contained shall give the Licensor or its licensee or licensees the permission to alter the prices fixed by this license [9] agreement for the use of the devices covered hereby; and provided further that nothing herein contained shall require the licensee to enter more than one oil-field in each six month period of this agreement.

15. It is further covenanted and agreed that the Licensor shall have a right and option to cancel and terminate this agreement upon written notice to the Licensee upon a breach of the terms of this agreement by the Licensee, which notice shall specify the breach and shall

give the Licensee a right and option to remedy the breach within thirty (30) days after said notice. In the event that this license agreement shall be terminated in accordance with this paragraph then the said Licensee agrees to pay all royalties on cuts made prior to the date upon which this agreement becomes terminated and agrees to sell and deliver to the Licensor all the devices in existence at such time at the agreed price of three hundred ($300.00) Dollars per device.

In Witness Whereof, the Licensor has caused this agreement to be executed by its President and Secretary, duly authorized, and has caused its corporate seal to be affixed, and the Licensee has caused this agreement to be executed by its President and Secretary, duly authorized, and has caused its corporate seal to be affixed, all on the day and year first above written.

(Seal) KAMMERER CORPORATION.

By Geo. Kammerer, President.

Attest:

Burdena V. Fitzgerald,
Assistant Secretary.

(Seal) L. F. BAASH PERFORATING COMPANY

By L. F. Baash, President.

Attest:

J. B. Reilly,
Secretary.

(Endorsed): Pltf. Exhibit No. 7. Filed 5/8/41.

[Endorsed]: Filed Apr. 9, 1945. [10]

In the United States District Court
Southern District of California
Central Division

Equity No. 751-Y

KAMMERER CORPORATION, a corporation, et al.,
Plaintiffs,

vs.

IRA J. McCULLOUGH, et al.,
Defendants.

Equity No. 1238-Y

KAMMERER CORPORATION, a corporation, et al.,
Plaintiffs,

vs.

IRA J. McCULLOUGH, et al.,
Defendants.

SUPPLEMENTAL INTERLOCUTORY JUDGMENT

This cause having come on before this Court on the Motions of the defendant to modify the Interlocutory Judgments of June 28, 1941 in the above-entitled causes (a) "by eliminating from each of such Interlocutory Judgments paragraphs VI and VII thereof * * * providing for accountings of and for payment by Defendant to Plaintiffs of profits and damages for patent infringement, with costs [11] of suit", (b) "for a stay of the accounting" and (c) "for Final Judgments providing that the Plaintiffs have used the patent in suit contra to the public interest, and that the complaints be dismissed with costs to Defendants." and on the motion of the defendant to amend his answer in the above-entitled cases, plaintiffs being represented by Frederick S.

Lyon and Leonard S. Lyon, attorneys for plaintiff, and the defendant being represented by R. Welton Whann, A. W. Boyken and Robert M. McManigal, attorneys for defendant, and the case having been heard on May 14, 1945, and this Court being fully advised in the premises, and having filed and entered its Findings of Fact and Conclusions of Law herein, [12]

It Is Ordered, Adjudged and Decreed as follows:

I.

That the Letters Patent in suit, being United States Letters Patent No. 1,625,391 dated April 19, 1927 for Tool For Cutting and Removing Pipe From Wells, are good and valid in law.

II.

That plaintiff herein, Kammerer Corporation, is the sole owner of said Letters Patent No. 1,625,391 and plaintiff, Baash Ross Tool Company, is the exclusive licensee thereunder as alleged in the bill of complaint herein.

III.

That defendant herein, Ira J. McCullough, doing business under the fictitious name of McCullough Tool Company, has infringed said Letters Patent and the claims thereof, particularly Claims 1, 2, 3, 4, 6, 7, 9, 14, 15, 18 and 21 thereof, by manufacturing, using and selling devices as shown in Defendant's Exhibits C and D.

IV.

That the bill of complaint herein be dismissed as to defendants, Otis J. McCullough a. [Ray Andrade.

V.

It is Further Ordered, Ajudged and Decreed that plaintiffs herein recover from said defendant, in addition to the profits to be accounted for by defendant, the damages which plaintiffs have sustained by reason of said infringement found as aforesaid, and to that end this case be and the same hereby is referred to David B. Head as Special Master to take and state an account of the profits said defendant has made by reason of such infringement, as well as of the damages which plaintiffs have sustained by reason of said infringement; and that on the hearing before the Master the defendant herein is ordered to produce before said Master the books of account of said defendant and such other [13] evidence as the Master may require in the matter of taking said accounting, and that said defendant, his agents, servants and employees be required to attend before said Master on the hearing before said Master as the Master may direct.

VI.

It Is Further Ordered, Adjudged and Decreed that plaintiffs herein recover from defendant the costs in this case to be taxed up to and including the entry of this supplemental judgment and that execution issue therefor; and that as to any further costs in this case from and after the entry of this supplemental judgment shall abide the further order of this Court.

VII.

That the motion of the defendant for final judgments dismissing the complaints is hereby denied.

VIII.

That the motions of the defendant to amend his answer in the above-entitled cases is hereby denied.

IX.

That the motion of the defendant for a stay of the accounting proceedings is hereby denied.

Costs taxed at .....

Dated this ..... day of June, 1945.

.....

United States District Judge

Motion for entry of Supplemental Interlocutory Judgment is denied, as the motion to modify the judgment was denied, the original judgment stands.

L. R. Y.,
J.

[Endorsed]: Received 6/4/45, 4:58 P. M. L. J. S., D. C.

[Minutes: Tuesday, June 5, 1945]

Present: The Honorable Leon R. Yankwich, District Judge.

This cause having been submitted on the motions of defendants presented and argued on May 14, 1945: At this time the Court signs the findings and order presented by the plaintiff, as modified by the insertion on page 3-A. The objections of defendant to the findings and order are overruled. The motion for entry of supplemental interlocutory judgment is denied, and the Court orders that as the motion to modify the judgment was denied, the original judgment stands. Formal order is signed, filed and entered in Misc. Civil Order Book. [15]

In the United States District Court
Southern District of California
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Equity No. 751-Y

KAMMERER CORPORATION, a corporation, et al.,
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Equity No. 1238-Y

KAMMERER CORPORATION, a corporation, et al.,
Plaintiffs,

vs.

IRA J. McCULLOUGH, et al.,
Defendants.

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER DENYING DEFENDANT'S MOTIONS

Interlocutory Judgments were entered in the above entitled cases on June 28, 1941, adjudging the patent in suit valid and infringed and providing for accountings of and for payment by Defendant to Plaintiffs of Defendant's profits and Plaintiffs' damages sustained by reason of such infringement. [16]

On July 10, 1941, the Defendant appealed from such Interlocutory Judgments to the Circuit Court of Appeals for the Ninth Circuit. Orders staying the injunctions and accountings pending the appeals were entered by this

Court on July 25, 1941. On these appeals the Court of Appeals affirmed the judgments of this Court.

Certiorari was sought from the Supreme Court on the ground that the license agreement between the Plaintiffs contained restrictions which were asserted to be unauthorized by the patent monopoly, contrary to public policy, and unlawful, and hence all equitable relief should be denied Plaintiffs. Certiorari was denied, but upon a petition for rehearing the order denying certiorari was vacated and certiorari granted June 5, 1944. After full hearing, the Supreme Court, on January 2, 1945, dismissed the Writ of Certiorari for the reason that the only question for which that Court granted certiorari was "one not properly raised, litigated or passed upon below."

After the dismissal of the Writ of Certiorari, Defendant moved the Court of Appeals for a modification of its decree herein dated October 18, 1943, affirming the appealed judgments "by eliminating from such decree any affirmance of paragraphs VI and VII of the two District Court Interlocutory Judgments providing for payment by Defendant to Plaintiffs of profits and damages for alleged patent infringement," with costs of suit "on the ground that Plaintiffs have used the patent in suit contrary to public policy and in restraint of trade, for which reasons they come into court with unclean hands," and are not entitled to an accounting of profits and damages. In the alternative, Defendant moved "for permission to apply to the District Court to reform said Interlocutory Judgments and stay the accounting, or for such other and different relief as may seem proper." [17]

After full argument, the Court of Appeals, on March 14, 1945, without passing upon the merits of Defendant's contention respecting the effect on the public interest of

Plaintiffs' license agreement, filed its Per Curiam opinion modifying its judgment of October 18, 1943, (without altering its judgment affirming the judgments of the District Court as to the validity of the patent and its infringement) to provide, "that the cause be remanded to the District Court and that that Court may entertain a motion or motions based upon such contention to modify or set aside its order or orders for such damages and accountings thereof, and take such action therein as it may determine."

Pursuant to the mandate of the Court of Appeals, Defendant now moves this Court to modify the Interlocutory Judgments of June 28, 1941 in the above cases (a) "by eliminating from each of such Interlocutory Judgments paragraphs VI and VII thereof * * *: providing for accountings of and for payment by Defendant to Plaintiffs of profits and damages for patent infringement, with costs of suit," (b) "for a stay of the accounting," and (c) "for Final Judgments providing that the Plaintiffs have used the patent in suit contra to the public interest, and that the complaints be dismissed with costs to Defendants."

This cause now comes on to be heard upon the aforesaid motions of Defendant. The grounds of the motions are that the Plaintiffs have used the patent in suit against the public interest and in restraint of trade to: (1) suppress the use of competing devices; (2) suppress the sale of the patented device by both the patent owner and licensee; (3) fix prices for the use of the patented device, which require the use of an unpatented commodity. Defendant in his reply brief filed in support of the aforesaid motions stated; "We are not moving for a new trial" * * * "nor is any new or further

evidence necessary in support of defendant's contention that the patent in suit was misused." [18]

When the motion was called for hearing, the Court stated to counsel for the defendants that on inquiry of one of counsel for the defendants, Mr. Robert M. McManigal, whether any evidence would be offered by the defendants in support of the motion, he was informed that no new or additional evidence would be presented, but that the defendants would rely upon the license agreement before the court and the other facts in the record in support of the motion. Whereupon Mr. A. W. Boyken, one of counsel for the defendants, who did not represent the defendants on the trial of the cause, informed the court that the statement made by other counsel was correct, and that the defendants did not intend to and would not offer any additional evidence, but merely argue the motion on the basis of the record already before the court. Whereupon, the cause was argued before the court by counsel for both parties. [19]

At the conclusion of the arguments upon Defendant's aforesaid motions and after the court had announced its oral decision denying each of the motions, Defendant then moved the court orally that Defendant be given permission to amend his answer in both of the above entitled cases, to set up in detail the misuse of the patents in suit by Plaintiffs;

And the court having heard the arguments of counsel for the respective parties, and being fully advised in the premises, finds the facts and states its conclusions of law as follows:

Findings of Fact

1.

The tool of the Kammerer patent No. 1,277,000 is used for the purpose of cutting off drill pipe that may have become stuck in the operation of drilling an oil well by the rotary method. The Reilly and Stone patent is an improvement over the Kammerer patent. The Reilly and Stone invention and the tool itself was made in the shop of the L. F. Baash Perforating Co., on the company's time and with the company's material. Kammerer notified the company and Reilly that the Reilly and Stone tool was an infringement of the Kammerer patent;

To settle the controversy, Baash negotiated with Kammerer and with Reilly and Stone and offered to build the tool, operate it and pay them fifty percent of the gross receipts for all rental tools, and all sales to foreign countries. Kammerer, Reilly and Stone formed Plaintiff, Kammerer Corporation, to own and hold the Kammerer invention and patent and the Reilly and Stone invention and patent. This corporation in turn granted to L. F. Baash Perforating Company the exclusive license here in question. Subsequently this license was assigned to Plaintiff, Baash-Ross Tool Company; [20]

By this arrangement and by the license agreement, the Kammerer Corporation, the owner of the inventions and patents, and Baash-Ross Tool Company engaged in a common enterprise in the nature of a joint venture in the exploitation of the use of the Kammerer and Reilly and Stone inventions for their mutual advantage.

2.

Paragraph 1 of the license "grants to the Licensee the exclusive right and license to manufacture and use, but

not to sell, devices embodying the aforesaid inventions * * * throughout the United States * * *";

The Reilly and Stone tool is a fishing tool. Tools of this type are not purchased by well drillers, but are handled by service organizations, of which Plaintiff, Baash-Ross Tool Company, is one, who maintain a stock of the tools and a staff of experienced operators. In providing in the license agreement that the Reilly and Stone tool should be made and used by the Licensee, the parties were only making the ordinary and usual type of contract adapted for the licensed business.

It is not established that the provision in the license agreement that the tool was not to be sold but only to be used by the Licensee, interfered in any manner with any interest of the public.

3.

Paragraph 2 of the license agreement provides that the "Licensee covenants and agrees * * * to pay the Licensor hereunder upon all devices embodying the aforesaid inventions, a royalty of fifty percent (50%) of the gross earnings accruing by the use of said devices by the Licensee";

Paragraph 3 of the license agreement provides that the "Licensee covenants and agrees * * * to charge as a rental for the use of said device or devices the sum of One Hundred and Ninety ($190.00) Dollars per cut made by said device or devices." [21]

The licensor was merely a holding company organized to embrace the rights of both the Kammerer invention and patent and the Reilly and Stone invention and patent. The parties were engaged in a common enterprise in the nature of a joint venture. The returns from the com-

mon enterprise were to be divided equally between the parties to the license agreement. The amount of the gross earnings determined the return from the invention. There is no question of the fixing of prices between competitors.

4.

There has never been any competition actual or possible between Plaintiff, Kammerer Corporation, and Plaintiff, Baash-Ross Tool Company.

5.

It is not established that the price of $190.00 per cut fixed by Paragraph 3 of the license agreement includes the cost of extra parts or the time of operators. However, such fact is immaterial. The parties to the agreement had the right to fix the price at which the tool would be used by the licensee. The agreement was not for the purpose of restricting the condition of use to the public or of maintaining prices between competitors. There was no restriction upon free competition. It left competitors of the licensee free to sell or rent their competitive fishing tools at any price they elected to charge for them. The parties to the agreement did no more than the owner of the patents itself could have done had the license agreement not been made.

6.

It is not established that the covenants contained in Paragraph 3 have been or are detrimental to the public interest.

7.

It is not established that Plaintiffs have attempted to fix prices upon anything not covered by the patent in suit. [22]

8.

By paragraph 11 of the license agreement "Licensee covenants and agrees * * * not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement."

By paragraph 12 the "Licensor covenants and agrees * * * not to manufacture, sell, rent, license, use or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement."

By the license agreement the parties interested in the ownership of the inventions and patents engaged in a common enterprise. These covenants were proper and such only as to offer fair protection to the parties in their common enterprise. Such covenants merely bound the parties to a course of conduct corresponding to that required of the parties to a common enterprise and which if not expressed would be implied. There is no restriction upon free competition. Competitors of Baash-Ross Tool Company were free to sell, lease or otherwise dispose of their fishing tools to anyone upon any terms or prices. Competitors were free to compete for the customers of Baash-Ross Tool Company by offering the use of their tools at lower prices or on better terms than such customers secured from Baash-Ross Tool Company. These covenants were not in restraint of trade or illegal.

9.

It is not established that the covenants contained in paragraphs 11 or 12 of the license agreement have been or are detrimental to the public interest.

10.

It is not established that Plaintiffs have attempted to suppress the use of competing devices. [23]

11.

It is not established that Plaintiffs have ever attempted in any manner whatsoever to restrict the public use of non-infringing competitive devices.

12.

It is not established that the asserted restrictive covenants in the license agreement are or have been in any manner detrimental to the public interest.

13.

It is not established that the asserted restrictive covenants in the license agreement are or have been enforced by the Plaintiffs in any manner detrimental to the public interest.

14.

It is not established that the Plaintiffs have used the patent in contravention of public interest.

15.

Analyzing the license agreement on its face, the covenants are all of a character which the owner of a patent has a right to enter into with one whom he makes an exclusive licensee, aiming at the exploitation of the invention and were reasonably necessary to protect the mutual interests of the parties engaged in the common enterprise.

16.

That portion of the Interlocutory Judgments which finds validity of the patent and infringement by the Defendant stands affirmed and has become final.

17.

There are no equities remaining in the case to be considered, and there are no equities so far as the public is concerned because the entire patent is now in the public domain and no injunctive process can be issued in the case because the patent has expired. [24]

Conclusions of Law

(1) The covenants between the parties to the license agreement not to compete were not in restraint of trade or illegal.

(2) The grant of the license to manufacture and use, but not to sell, was not illegal.

(3) The setting of the price to be charged by the licensee for running the tool for its customers was not illegal.

(4) There is nothing in the license agreement attempting to extend the scope of the patent monopoly.

(5) The patent in suit has not been used in contravention of public interest.

(6) The asserted restrictive covenants contained in the license agreement were reasonably necessary to protect the mutual interests of the parties.

(7) Plaintiffs have not attempted to fix prices upon anything not covered by the patent in suit.

(8) Plaintiffs have not attempted to suppress the use of competing devices.

(9) The motion of the Defendant to modify the Interlocutory Judgments by striking therefrom the provision requiring an accounting to ascertain the profits and damages or to stay the accounting should be denied.

(10) The motion of the Defendant for final judgment dismissing the complaints should be denied.

(11) The motion of the Defendant for permission to amend his answer in the above entitled cases to set up in detail the misuse of the patent in suit by Plaintiffs should be denied on the ground that it would mean a retrial of the cases, and on the further ground that Defendant has not shown that there is any evidence to support such motion. [25]

ORDER

It Is Therefore Ordered that the motion of the Defendant to modify the Interlocutory Judgments by striking therefrom the provision requiring an accounting to ascertain the profits and damages from the infringement by Defendant, or to stay the accounting is hereby denied;

It Is Further Ordered that the motion of the Defendant for final judgments dismissing the complaints is hereby denied;

It Is Further Ordered that the stay of the accounting proceedings heretofore entered herein by this Court be, and the same is hereby, vacated and set aside, and the accounting proceedings before David B. Head, as Master, as provided in the original order of reference heretofore entered herein, be forthwith resumed;

It Is Further Ordered that the motion of the Defendant to amend his answer in the above entitled cases is hereby denied.

Dated: Los Angeles, California, June 5, 1945.

LEON R. YANKWICH
Judge of the District Court [26]

Due Service and receipt of a Copy of the within Findings of Fact, Conclusions of Law, etc., is hereby admitted this 22 day of May, 1945. R. Welton Whann, R. M. McManigal, Attys. for Defendant.

[Endorsed]: Filed Jun. 5, 1945. [27]

[Title of District Court and Cause.]

NOTICE BY CLERK OF ENTRY OF JUDGMENT

Lyon & Lyon, Esqs.,
811 West Seventh St.
Los Angeles 14, California.

R. Welton Whann, Esq.,
Robert McManigal, Esq.,
A. W. Boyken, Esq.,
818 Pacific National Bldg.,
Los Angeles 15, California.

Gentlemen:

Re Kammerer Corporation, etc., v. Ira J. McCullough et al.
Eq. 751 Y and Eq. 1238 Y

You are hereby notified that Findings of Fact, Conclusions of Law and Order Denying Motions of Defendants has been entered this day in the above-entitled case, in Misc. Civil Order Book, June 5th, 1945.

Dated: Los Angeles, California.

EDMUND L. SMITH,
Clerk.

By Louis J. Somers,
Deputy Clerk.

This notice mailed June 8th, 1945. [28]

[Title of District Court and Cause.]

ORDER UPON ACCOUNTING

Pursuant to the Order entered on June 5, 1945, in the above entitled consolidated causes, vacating and setting aside the stay of the accounting proceedings theretofore entered therein, and ordering that the accounting proceedings before the undersigned as Master, as provided in the original Order of reference theretofore entered therein, be forthwith resumed; [28]

Now, Therefore, pursuant to the Interlocutory Judgment entered on June 28, 1941, in each of the above entitled consolidated actions, and for the purpose of taking and stating an account of the profits and gains which the Defendant has derived or received by reason of the infringement adjudged in said Judgments, and for the purpose of assessing any and all damages which Plaintiffs have sustained by reason of said infringements:

You, the said Ira J. McCullough, are hereby ordered and directed to appear before me at the hour of 10:00 o'clock A. M., on the 2nd day of July, 1945, at my office, Room 520, in the Post Office and Federal Building, Los Angeles, California, and bring with you and render an account or statement, in writing, under oath, of the profits and gains which you have derived or received, arising out of or accruing from the aforesaid infringements in each of the above entitled consolidated causes, and that you separately set forth in detail in said account or statement, in each of said causes, the following:

1. The total number of devices of the type and kind decreed to be an infringement of the Letters Patent in suit which you have manufactured, used, sold, leased, con-

tracted with others for the use thereof, or otherwise disposed of.

2. The date on which each such device was manufactured, used, sold, leased, contracted with others for the use thereof, or otherwise disposed of; the name and address of each purchaser and lessee of each and every such device; the name and address of each person, firm or corporation with whom you have contracted in any manner for the use of each and every such device; the name and address of each and every person, firm or corporation to whom you have in any other manner disposed of each and every such device; and the amount you received for each device; separately stating the amounts received from sales, leases, rentals, or services, etc.; the name and address of each person, firm or corporation for [30] whom you have used outside cutters of the type and kind decreed to be in infringement of the Letters Patent in suit to cut pipe out of wells, giving the number and location of each well, or wells, the number of cuts performed on each well, the date, or dates, each such cuts were made, the price charged and collected for each cut so made.

3. The total cost to you of manufacturing said infringing devices, giving in detail the character and amount of each item included therein.

4. The number and kind of each and every spare parts, repairs and replacement parts and supplies manufactured, sold, or otherwise furnished by our or on your behalf to the users of each device of the type and kind decreed to be in infringement of the Letters Patent in suit; the name

and address of each person, firm or corporation to whom you so sold or otherwise furnished the same; the amount you received or contracted to receive for the same; and the total cost to you of manufacturing or otherwise obtaining the same, giving in detail the character and amount of each item included therein.

It Is Further Ordered that you have with you at said time all books, papers, documents, statements, records, vouchers, contracts, leases, and all other things pertaining to such infringement and the amount received and expended therein by you, including all matters pertaining to the manufacturing, using, selling, servicing, or otherwise disposing of such device.

This order is directed to you, your officers, agents, employees, clerks, attorneys, representatives, workmen and associates, and each of them, as they may stand with you in relation to the premises, all in accordance with said Interlocutory Judgment entered in each of the aforesaid consolidated causes, and the powers therein and thereby conferred upon me and in accordance with Rule 53 of the Rules of Civil Procedure, and the Rules of [31] Practice in the Courts of Equity in the United States, and the Statutes of the United States made and provided.

Dated: At Los Angeles, California, this 11th day of June, 1945.

DAVID B. HEAD
Special Master

[Endorsed]: Filed Jun. 14, 1945. [32]

[Title of District Cause and Court.] Equity No. 751-Y

NOTICE OF APPEAL TO CIRCUIT COURT OF APPEALS

Notice is hereby given that Ira J. McCullough, defendant-appellant above named, hereby appeals to the Circuit Court of Appeals for the Ninth Circuit from the Final Order entered in this action on the 5th day of June, 1945.

Dated: July 3rd, 1945.

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
Attorneys for Defendant-Appellant
Address:
315 West Ninth Street
Los Angeles, California

[Endorsed]: Filed & mld. copy to Lyon & Lyon, Attys. for plfs. Jul. 3, 1945. [33]

[Title of District Court and Cause.]

BOND ON APPEAL

Know All Men By These Presents, that Fidelity and Deposit Company of Maryland, a corporation, organized and existing under the laws of the State of Maryland, and duly licensed to transact business in the State of California, is held and firmly bound unto Kammerer Corporation, a corporation, and Baash-Ross Tool Company, a corporation, the plaintiffs and appellees in the above entitled case, in the penal sum of Two Hundred Fifty and No 100 ($250.00) Dollars, to be paid to said plaintiffs

and appellees, their successors, assigns, or legal representatives, for which payment well and truly to be made, the Fidelity and Deposit Company of Maryland binds itself, its successors and assigns firmly by these presents. [34]

The Condition of the Above Obligation Is Such, That Whereas, Ira J. McCullough, defendant, is about to take an appeal to the United States Circuit Court of Appeals for the Ninth Circuit to reverse a final order rendered and entered on June 5, 1945, in favor of the plaintiffs and appellees by the United States District Court for the Southern District of California, Central Division, in the above entitled case,

Now, Therefore, if the above named defendant and appellant shall answer all costs which may be adjudged against him if the appeal is dismissed, or the judgment affirmed, or such costs as the Appellate Court may award if the judgment is modified, then this obligation shall be void; otherwise to remain in full force and effect.

It Is Hereby Agreed by the Surety that in case of default, or contumacy, on the part of the Principal or Surety, the Court may, upon notice to them of not less than ten days, proceed summarily and render judgment against them, or either of them, in accordance with their obligation and award execution thereon.

Signed, sealed and dated this 15th day of June, 1945.

(Seal) FIDELITY AND DEPOSIT COMPANY OF MARYLAND

By Robert Hecht

Attorney in Fact

Attest:

Theresa Fitzgibbons

Agent.

State of California,
County of Los Angeles—ss.

On this 15th day of June, 1945, before me, S. M. Smith, a Notary Public, in and for the said County of Los Angeles, State of California, residing therein, duly commissioned and sworn, personally appeared Robert Hecht, known to me to be the Attorney-in-Fact, and Theresa Fitzgibbons, known to me to be the Agent of the Fidelity and Deposit Company of Maryland, the Corporation that executed the within instrument, and acknowledged to me that they subscribed the name of the Fidelity and Deposit Company of Maryland thereto and their own names as Attorney-in-Fact and Agent, respectively.

(Seal) S. M. SMITH
Notary Public in and for the County of Los Angeles, State of California.

My Commission Expires February 18, 1946.

Examined and recommended for approval as provided in Rule 8.

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
Attorneys for Appellant, Defendant.

[Endorsed]: Filed Jul. 3, 1945. [35]

[Title of District Court and Cause.] Equity No. 1238-Y

NOTICE OF APPEAL TO CIRCUIT COURT OF APPEALS

Notice is hereby given that Ira J. McCullough, defendant-appellant above named, hereby appeals to the Circuit Court of Appeals for the Ninth Circuit from the Final Order entered in this action on the 5th day of June, 1945.

Dated: July 3rd, 1945.

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
Attorneys for Defendant-Appellant

Address:
315 West Ninth Street
Los Angeles, California

[Endorsed]: Filed & mld. copy to Lyon & Lyon, Attys. for plfs. Jul. 3, 1945. [36.]

[Title of District Court and Cause.]

BOND ON APPEAL

Know All Men By These Presents, that Fidelity and Deposit Company of Maryland, a corporation, organized and existing under the laws of the State of Maryland, and duly licensed to transact business in the State of California, is held and firmly bound unto Kammerer Cor-

poration, a corporation, and Baash-Ross Tool Company, a corporation, the plaintiffs and appellees in the above entitled case, in the penal sum of Two Hundred Fifty and No/100 ($250.00) Dollars, to be paid to said plaintiffs and appellees, their successors, assigns, or legal representatives, for which payment well and truly to be made, the Fidelity and Deposit Company of Maryland binds itself, its successors and assigns firmly by these presents. [37]

The Condition of the Above Obligation Is Such, That Whereas, Ira J. McCullough, defendant, is about to take an appeal to the United States Circuit Court of Appeals for the Ninth Circuit to reverse a final order rendered and entered on June 5, 1945, in favor of the plaintiffs and appellees by the United States District Court for the Southern District of California, Central Division, in the above entitled case,

Now, Therefore, if the above named defendant and appellant shall answer all costs which may be adjudged against him if the appeal is dismissed, or the judgment affirmed, or such costs as the Appellate Court may award if the judgment is modified, then this obligation shall be void; otherwise to remain in full force and effect.

It Is Hereby Agreed by the Surety that in case of default, or contumacy, on the part of the Principal or Surety, the Court may, upon notice to them of not less than ten days, proceed summarily and render judgment against them, or either of them, in accordance with their obligation and award execution thereon.

Signed, sealed and dated this 15th day of June, 1945.

(Seal) FIDELITY AND DEPOSIT COMPANY OF MARYLAND

By Robert Hecht

Attorney in Fact.

Attest:

Theresa Fitzgibbons

Agent

State of California,

County of Los Angeles—ss:

On this 15th day of June, 1945, before me, S. M. Smith, a Notary Public, in and for the said County of Los Angeles, State of California, residing therein, duly commissioned and sworn, personally appeared Robert Hecht, known to me to be the Attorney-in-Fact, and Theresa Fitzgibbons, known to me to be the Agent of the Fidelity and Deposit Company of Maryland, the Corporation that executed the within instrument, and acknowledged to me that they subscribed the name of the Fidelity and Deposit Company of Maryland thereto and their own names as Attorney-in-Fact and Agent, respectively.

(Seal) S. M. SMITH

Notary Public in and for the County of Los Angeles, State of California.

My Commission Expires February 18, 1946.

Examined and recommended for approval as provided in Rule 8.

R. WELTON WHANN

A. W. BOYKEN

ROBERT M. McMANIGAL

Attorneys for Appellant, Defendant

[Endorsed]: Filed Jul. 3, 1945. [38]

[Title of District Court and Cause.]

STIPULATION RE SINGLE RECORD ON APPEALS

Whereas, an Order was made on January 19, 1939 consolidating the above-entitled cases for trial and for all other purposes, and, [39]

Whereas, an Order was made in the Circuit Court of Appeals in the first appeals causing the record on appeal to be printed entitled in both of said appeals, and,

Whereas, defendant's "Motion for Modification of Interlocutory Judgments, To Stay Accountings, and for Final Judgments Dismissing Complaints" in each of said cases is a single instrument entitled in both of said causes, and said Motions were heard together, and,

Whereas, the "Findings of Fact, Conclusions of Law and Order Denying Defendant's Motions" in said actions is a single instrument entitled in both of said causes, and,

Whereas, the record on appeal in both of said appeals is substantially the same, and,

Whereas, economy and justice can be best served by a single record on appeal,

It Is Hereby Stipulated by and between the parties, through their respective attorneys and subject to the approval of the Court, that the records on appeal in the

above entitled actions be combined in a single record on appeal.

Dated at Los Angeles, California, this 19 day of July, 1945.

LYON & LYON
LEWIS E. LYON
Attorneys for Plaintiffs

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
Attorneys for Defendant Ira J. McCullough

Approved and so ordered this 20th day of July, 1945.

PAUL J. McCORMICK
United States District Judge

[Endorsed]: Filed Jul. 20, 1945. [40]

[Title of District Court and Cause.]

STATEMENT OF POINTS TO BE RELIED UPON BY DEFENDANT-APPELLANT IN SUPPORT OF HIS APPEALS PURSUANT TO THE PROVISIONS OF RULE 75 (d) OF THE RULES OF CIVIL PROCEDURE

The above-named Defendant-Appellant intends to rely upon the [41] following points in support of his appeals to the Circuit Court of Appeals for the Ninth Circuit:

I.

In finding that by the license agreement, Ex. No. 7, the Plaintiffs engaged in a common enterprise in the nature of a joint venture.

II.

In finding that in providing in the license agreement that the Reilly and Stone tool should be made and used by the Licensee, the parties were only making the ordinary and usual type of contract adapted for the licensed business.

In finding that it is not established that the provision in the license agreement that the tool was not to be sold but only to be used by the Licensee, interfered in any manner with any interest of the public.

III.

In finding that there is no question of the fixing of prices between competitors.

IV.

In finding that there has never been any competition, actual or possible between Plaintiffs.

V.

In finding that it is not established that the price of $190.00 per cut fixed by Paragraph 3 of the license agreement includes the cost of extra parts or the time of operators. In finding that such fact is immaterial. In finding that the parties to the agreement had the right to fix the price at which the tool would be used by the Licensee. In finding that the agreement was not for the purpose of restricting the condition of use to the public or of maintaining prices between competitors. In finding that there was no restriction upon free competition. [42]

VI.

In finding that it is not established that the covenants contained in Paragraphs 3, 11, 12, or any other paragraph of the license agreement have been or are detrimental to the public interest.

VII.

In finding and concluding that Plaintiffs have not attempted to fix prices upon anything not covered by the patent in suit.

VIII.

In finding that the covenants contained in Paragraphs 11 and 12 of the license agreement were proper and were not in restraint of trade or illegal.

IX.

In finding and concluding that Plaintiffs have not attempted to suppress the use of competing devices.

X.

In finding that it is not established that the restrictive covenants in the license agreement are or have been enforced by the Plaintiffs in any manner detrimental to the public interest.

XI.

In finding and concluding that the patent in suit has not been used in contravention of the public interest.

XII.

In finding that in analyzing the license agreement on its face, the covenants are all of a character which the owner of a patent has a right to enter into with one whom he makes an exclusive licensee, aiming at the exploitation of the invention, and were reasonably necessary to protect the mutual interests of the parties engaged in the common enterprise.

XIII.

In finding that portion of the Interlocutory Judgments which finds validity of the patent and infringement by the Defendant [43] stands affirmed and has become final.

XIV.

In finding that there are no equities remaining in the case to be considered, and there are no equities so far as the public is concerned because the entire patent is now in the public domain and no injunctive process can be issued in the case because the patent has expired.

XV.

In concluding that the covenants between the parties to the license agreement not to compete were not in restraint of trade or illegal.

XVI.

In concluding that the grant of the license to manufacture and use, but not to sell, was not illegal.

XVII.

In concluding that the setting of the price to be charged by the licensee for running the tool for its customers was not illegal.

XVIII.

In concluding that there is nothing in the license agreement attempting to extend the scope of the patent monopoly.

XVIV.

In finding and concluding that the restrictive covenants contained in the license agreement were reasonably necessary to protect the mutual interests of the parties.

XX.

In concluding and ordering that the motion of the Defendant to modify the Interlocutory Judgments by striking therefrom the provision requiring an accounting to ascertain the profits and damages or to stay the accounting should be denied. [44]

XXI.

In concluding and ordering that the motion of the Defendant for final judgment dismissing the complaints should be denied.

XXII.

In concluding and ordering that the motion of the Defendant for permission to amend his answers should be denied.

XXIII.

In ordering that the accounting proceedings be resumed.

XXIV.

In finding findings of fact numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, and 17, in concluding conclusions of law numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11, and in ordering all of the paragraphs of the Order which was entered on June 5, 1945.

XXV.

In failing to find, conclude, and decree that the covenants of Plaintiffs not to deal in devices competitive with the licensed devices constituted an attempt to extend the patent monopoly and were detrimental to the public interest, and in restraint of trade and illegal.

XXVI.

In failing to find, conclude and decree that the covenants of Plaintiffs preventing the sale of the licensed device by either of them was detrimental to the public interest, in restraint of trade, and illegal.

XXVII.

In failing to find, conclude and decree that the fixing of the price which the Licensee must charge for the use of the patented tool, including the service charge, was beyond the scope of the patent, detrimental to the public interest, in restraint of trade and illegal. [45]

XXVIII.

In failing to find, conclude and decree that the Plaintiffs are not entitled to accountings and payment of profits and damages by reason of the misuse of the patents in suit.

XXVIV.

In not dismissing the Plaintiffs' complaint.

Dated at Los Angeles, California, this 20th day of July, 1945.

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
Attorneys for Defendant.

Receipt of the foregoing "Statement of Points to Be Relied Upon by Defendant-Appellant in Support of His Appeals Pursuant to the Provisions of Rule 75 (d) of the Rules of Civil Procedure" is hereby acknowledged this 23rd day of July, 1945. Lyon & Lyon, Lewis E. Lyon, Attorneys for Plaintiff-Appellee.

[Endorsed]: Filed Jul. 23, 1945. [46]

[Title of District Court and Cause.]

STIPULATION AND ORDER RE FILING OF REPORTER'S TRANSCRIPTS

It is hereby stipulated and agreed, by and between the parties hereto, subject to the approval of the Court, that the original of [51] the "Reporter's Transcript of Opinion of the Court on Motion of Defendant for Modification of Interlocutory Judgment; and to Stay Accounting and for Final Judgments Dismissing the Proceedings, Pursuant to Notice Filed April 9, 1945," be filed, together with a copy of said transcript, and that the original of the "Reporter's Transcript of Proceedings in re Motion of Defendants for Modification of Interlocutory Judgments; to Stay Accounting and for Final Judgments Dismissing the Proceedings, Pursuant to Notice Filed April 9, 1945," which copy was for the use of the Court, may be filed, and that the filing of the above mentioned transcripts shall be deemed to be a sufficient compliance with the rules.

Dated at Los Angeles, California, July 23, 1945.

LYON & LYON
LEWIS E. LYON
Attorneys for Plaintiffs

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
Attorneys for Defendant Ira J. McCullough

Approved and so ordered this 24th day of July, 1945.

LEON R. YANKWICH
United States District Judge

[Endorsed]: Filed J[illegible] 24, 1945. [52]

[Title of District Court and Cause.]

CERTIFICATE OF CLERK

I, Edmund L. Smith, Clerk of the District Court of the United States for the Southern District of California, do hereby certify that the foregoing pages numbered from 1 to 52 inclusive contain full, true and correct copies of Motion for Modification of Interlocutory Judgments, to Stay Accountings, and for Final Judgments Dismissing Complaints together with Exhibit A only; Proposed Supplemental Interlocutory Judgment; Minute Order Entered June 5, 1945; Findings of Fact, Conclusions of Law and Order Denying Defendant's Motions; Notice of Entry of Findings, etc.; Order Upon Accounting; Notice of Appeal in Case No. 751-Y—Equity; Bond on Appeal in Case No. 751-Y—Equity; Notice of Appeal in Case No. 1238-Y—Equity; Bond on Appeal in Case No. 1238-Y—Equity; Stipulation and Order re Single Record on Appeals; Statement of Points to be Relied Upon; Appellant's Designation of Record on Appeals; and Stipulation and Order re Reporter's Transcripts which, together with copy of Reporter's Transcripts of May 14, 1945, constitute the record on appeals to the United States Circuit Court of Appeals for the Ninth Circuit.

I further certify that my fees for preparing, comparing, correcting and certifying the foregoing record amount to $15.25 which sum has been paid to me by appellant.

Witness my hand and the seal of said District Court this 9 day of August, 1945.

(Seal) EDMUND L. SMITH, Clerk

By Theodore Hocke

Chief Deputy Clerk

[Title of District Court and Cause.]

REPORTER'S TRANSCRIPT OF OPINION OF THE COURT ON MOTION OF DEFENDANT FOR MODIFICATION OF INTERLOCUTORY JUDGMENT; AND TO STAY ACCOUNTING AND FOR FINAL JUDGMENTS DISMISSING THE PROCEEDINGS, PURSUANT TO NOTICE FILED APRIL 9, 1945

Los Angeles, California, Monday, May 14, 1945; 2:00 P. M.

* * * * * * * * * *

The Court: I am going to rule. As to findings, I think I will call your attention to the case, and I think you had better read it, of Mateas v. Harvey, No. 10,783, January 12, 1945. It is a very broad ruling on the question as to when findings are required. I don't agree with the decision, not because they happened to reverse me, but because I do not think it is consistent with the theory of pleadings to require findings in the case of a nonsuit, when you tell a man he hasn't produced facts sufficient to prosecute a claim. It should not be required to make findings in a one-sided case. However, they evidently take a very broad view of the need for findings in some of the other cases, so I think that probably it would be just as well to have findings.

Now, gentlemen, this case has been pending for a long while. It has been pending for ten years. I have had an opportunity to watch it as it went through the various courts because of the interest I had in this branch of the law and because I am also more or less interested in the general trend of decisions.

I agree with the courts that patents should not be interpreted in a manner so as to confer upon the patentee a monopoly other than that which is inherent in the patent [2*] itself. My own view of the decision of the Supreme Court was that that decision in dismissing certiorari ended the litigation. I assume, however, that the Circuit Court of Appeals thought otherwise, because they sent it back to me. I assume, for the purpose of argument, that I have the right to entertain this motion, and I have entertained it by devoting the day to arguments of counsel on behalf of their respective clients, and have given counsel an opportunity to present evidence, which they said they did not desire to present, but desired to rest on the record.

I am satisfied that this agreement does not fall within the interdiction of any of the cases counsel has cited. I think the agreement between the patent owner and the licensee as to the exclusive exploitation of the patent is a legitimate agreement, which a patent owner can make. I think also that the last decision of the Supreme Court, which was referred to, Hartford Empire Company vs. United States, shows clearly that a patent owner may put in a provision against sale and instead substitute for it a provision calling for rental on a definite basis.

In this particular case the licensee agreed to manufacture the patented article and agreed to furnish the services of skilled persons who were to use it in cutting pipe when pipe had become stock—I don't know what expression they used exactly—had become stuck in the well, and that they divided the profits. Whether we call [3] it a joint venture or not, it is a common enterprise between a single licensee, an exclusive licensee, and

*Page number appearing at top of Reporter's Transcript.

a patent owner for the protection of their mutual interests of a type which does not infringe upon any public interests.

In fact, with the present trend of the courts to restrict the rights of persons to a patent, I think if we deny the owner of the patent the right to market it in a manner so as to be profitable to him—and, certainly, he has the right to decide that it shall be marketed under a leasing system rather than an outright sale—we will make the patent right an illusory right, because ultimately the right to patent is the right to prevent the use by others, a negative right, and only incidentally does it mean the promotion of the enterprise itself. If we say that a man cannot agree with an exclusive licensee that he shall not handle other articles that might compete with it, we really prevent the patent owner from the benefit of the monopoly which his discovery entitles him to, under the Constitution, and the law, and the law of the State.

I think also that at the present stage of the case, as to the infringement, the portion of the decree finding infringement stands affirmed and has become final, and that there are no equities remaining in the case. That seems to me to be the case as it now stands; and that there are no equities so far as the public is concerned, because the entire patent is now in the public domain, and all this court [4] is called upon to do is to assess the damages consequent upon the infringement, and no injunctive process can be issued in the case because the patent has expired.

So I will find that the evidence in the case does not show that the patent has been used in contravention of public interests; that no evidence has been offered to the court that the covenants are either detrimental to the

public or have been enforced in a manner detrimental to the public; that, analyzing the instrument on its face, the covenants themselves are of a character which the owner of a patent has a right to enter into with one whom he makes an exclusive licensee, aiming at the exploitation of the invention.

For that reason the motion of the defendant to modify the interlocutory judgment by striking therefrom the provision requiring an accounting to ascertain the profits or to stay the accounting is denied, and—this is in the alternative, I assume—the motion for final judgment dismissing the complaint is also denied.

I think, gentlemen, that it is quite evident that when a judgment has become final, whether a formal judgment is entered following upon the mandate or not, it places it beyond the court, the trial court, to touch it, unless some illegality appears upon its face; and, therefore, even if I granted the motion to modify, I could not touch the portion of the decree which finds validity of the patent and [5] infringement, because that portion of the decree has been affirmed and is now a final judgment.

I merely am indicating that as another ground for denying that motion, but the chief ground is, as I have stated and as appears more fully in the discussion.

I want to thank you, gentlemen, for the scholariness with which you have rummaged the field and placed this question before the court. I have had the benefit of not only the copies which you have furnished me of briefs, but also of the documents which you have loaned me for my

own, use, consisting of the transcripts and the various briefs and proceedings in the other courts.

Mr. Boyken: Without prejudice to our previous motion, I would like to move at this time that the defendant be given permission to amend its answer in both cases, setting up in detail the misuse of this patent.

The Court: The motion will be denied on the ground that it would mean a retrial, and we can't retry the matter at the present time.

Mr. Leonard S. Lyon: Your Honor please, upon the entry of the interlocutory judgments in this case calling for the accounting, representations were made to Mr. Head, special master,—

The Court: That is correct.

Mr. Leonard S. Lyon: —and he issued orders for the defendants to file their accounting, and those orders were [6] stayed by an order of your Honor pending the termination of the appeals. May I have an order that the stay is now vacated and that we may proceed with the accountings?

The Court: You may put that in as a part of the order denying the motion.

Mr. Leonard S. Lyon: Yes.

The Court: And it merely leaves the case as it was before.

* * * * * * * * * [7]

The Court: Then, gentlemen, you will prepare findings and an order on the motion.

[Endorsed]: Filed Aug. 8, 1945. [8]

[Endorsed]: No. 11122. United States Circuit Court of Appeals for the Ninth Circuit. Ira J. McCullough, Appellant, vs. Kammerer Corporation and Baash-Ross Tool Company, Appellees; Ira J. McCullough, Appellant, vs. Kammerer Corporation and Baash-Ross Tool Company, Appellees. Transcript of Record. Upon Appeals From the District Court of the United States for the Southern Disfrict of California, Central Division.

Filed August 10, 1945.

PAUL P. O'BRIEN

Clerk of the United States Circuit Court of Appeals for the Ninth Circuit.

In the United States Circuit Court of Appeals
for the Ninth Circuit
No. 11122

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Appellees.

STATEMENT ADOPTING POINTS ON APPEALS

Comes now the appellant, above named, and adopts as the points to be relied upon on appeal pursuant to Paragraph VI of Rule 19 of the Rules of this Court, the statement of such points appearing in the District Clerk's Transcript of Record on file here, said statement being entitled "Statement of Points to Be Relied Upon by Defendant-Appellant in Support of His Appeals, Pursuant to the Provisions of Rule 75 (d) of the Rules of Civil Procedure."

Dated at Los Angeles, California, this 10th day of August, 1945.

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
By Robert M. McManigal
Attorneys for Appellant
315 West Ninth Street
Los Angeles, California

Receipt of the foreging "Statement Adopting Points on Appeal" is hereby acknowledged this 10th day of August, 1945. Lyon & Lyon, Leonard S. Lyon, Attorneys for Appellees.

[Endorsed]: Filed Aug. 13, 1945. Paul P. O'Brien, Clerk.

[Title of Circuit Court of Appeals and Cause.]

APPELLANT'S DESIGNATION OF PARTS OF THE RECORD ON APPEAL TO BE PRINTED.

Comes now appellant, above named, pursuant to Paragraph VI of Rule 19 of this Court, and designates the parts of the record on appeal to be printed as follows:

1. Motion for Modification of Interlocutory Judgments, To Stay Accountings, and for Final Judgments Dismissing Complaints, and Exhibit A attached to said motion.
2. Reporter's Transcript of Opinion of the Court on said Motions, dated May 14, 1945, except as follows:

   Omit cover and title pages.

   Omit page 7, line 9, through page 8, line 9, inclusive.
3. Findings of Fact, Conclusions of Law and Order Denying Defendant's Motions, entered June 5, 1945.
4. Minute Order of Judge Yankwich denying motion for entry of Supplemental Interlocutory Judgment.
5. Notice by Clerk of Entry of Judgment, mailed June 8, 1945.
6. Order Upon Accounting, dated June 11, 1945.
7. Notice of Appeal to Circuit Court of Appeals filed by Defendant Appellant on July 3, 1945, Equity No. 751-Y.
8. Bond on Appeal, filed on July 3, 1945 in Equity No. 751-Y.

9. Notice of Appeal to Circuit Court of Appeals filed by Defendant-Appellant on July 3, 1945, Equity No. 1238-Y.

10. Bond on Appeal, filed on July 3, 1945 in Equity No. 1238-Y.

11. Stipulation and Order dated July 20, 1945 re single record on appeal.

12. Stipulation and Order re filing of Reporter's Transcripts.

13. Statement of Points to be Relied upon by Defendant-appellant in Support of His Appeal Pursuant to the Provisions of Rule 75 (d) of the Rules of Civil Procedure.

14. Appellant's Designation of the Portions of the Record, Proceedings and Evidence to be Contained in the Record on Appeal.

15. Certificate of the Clerk of the District Court to the Transcript of Record on Appeal.

16. Statement Adopting Points on Appeal.

17. Appellant's Designation of Parts of the Record on Appeal to Be Printed.

Dated at Los Angeles, California, this 10th day of August, 1945.

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
By Robert M. McManigal
Attorneys for Appellant
315 West Ninth Street
Los Angeles, California

Receipt of the foregoing "Appellant's Designation of Parts of the Record on Appeal to Be Printed" is hereby acknowledged this 10th day of August, 1945. Lyon & Lyon, Leonard S. Lyon, Attorneys for Appellees.

[Endorsed]: Filed Aug. 13, 1945 Paul P. O'Brien, Clerk.

[Title of Circuit Court of Appeals and Cause.]

ORDER REGARDING RECORD

It appearing that second appeals have been taken by the appellant named above, and it also appearing that the causes from which said appeals have been taken were consolidated for trial by the District Court and were tried concurrently upon the same record, and it further appearing that the record on appeal in both of the above entitled appeals is substantially the same, and it also further appearing that economy and justice can be best served by said appeals being heard and determined on the same record on appeal.

It Is Hereby Ordered that the Clerk of this Court shall cause said record on appeal to be printed entitled in both appeals, and that the number of copies of said record on appeal to be filed in said appeals shall be the same number as provided by the Rules of this Court for single appeals.

It Is Further Ordered that the material pleadings, judgments, Opinion of the Court dated June 7, 1941, original license agreement between the plaintiffs, Ex. 7,

Reporter's Transcript of Testimony and Proceedings on the Trial of the Cause in May, 1941, Exhibits introduced in evidence at said trial, and all of the other papers in Volumes I, II, III, and IV of the printed Transcript of Record on file herein in Case No. 9957 of this Court shall constitute a part of the record to be considered by the Court and counsel during the hearing of said cause or otherwise with the same force and effect as if printed in the record to be printed pursuant to "Appellant's Designation of Parts of the Record on Appeal to Be Printed," on file herein.

Dated at San Francisco, California, this 18th day of August, 1945.

FRANCIS A. GARRECHT
United States Circuit Judge

[Endorsed]: Filed Aug. 18, 1945. Paul P. O'Brien, Clerk.

Vol. II

TRANSCRIPT OF RECORD

(Pages 57 to 87)

Supreme Court of the United States

OCTOBER TERM, 1946

No. 755

IRA J. McCULLOUGH, PETITIONER,

vs.

KAMMERER CORPORATION AND BAASH-ROSS TOOL COMPANY

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

PETITION FOR CERTIORARI FILED DECEMBER 6, 1946.

CERTIORARI GRANTED FEBRUARY 3, 1947.

No. 11122

IN THE

United States Circuit Court of Appeals
For the Ninth Circuit

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION and BAASH-ROSS TOOL COMPANY,

Appellees.

And

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION and BAASH-ROSS TOOL COMPANY,

Appellees.

Upon Appeals from the District Court of the United States for the Southern District of California, Central Division

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PROCEEDINGS HAD IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

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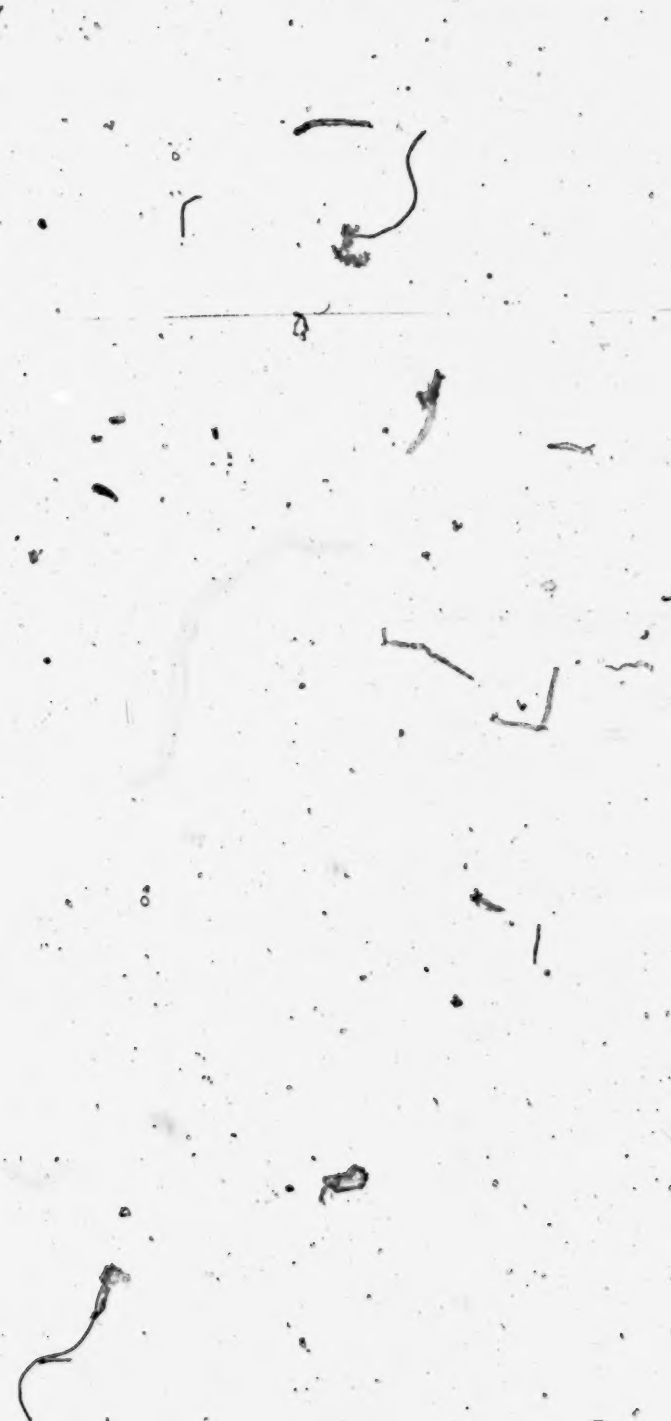

United States Circuit Court of Appeals for the Ninth Circuit

Excerpts from Proceedings of Friday, May 17, 1946.

Before: Denman, Mathews and Orr, Circuit Judges.

[Title of Cause.]

ORDER OF SUBMISSION

Ordered appeal herein argued by Mr. A. W. Boyken, counsel for appellant, and by Mr. Leonard S. Lyon, counsel for appellees, and submitted to the court for consideration and decision. [*57]

United States Circuit Court of Appeals for the Ninth Circuit

Excerpts from Proceedings of Saturday, June 29, 1946.

Before: Denman, Mathews and Orr, Circuit Judges.

[Title of Cause.]

ORDER DIRECTING FILING OF OPINIONS AND FILING AND RECORDING OF DECREE

Ordered that the typewritten opinion and dissenting opinion this day rendered by this Court in above cause be forthwith filed by the clerk, and that a decree be filed and recorded in the minutes of this court in accordance with the majority opinion rendered. [58]

[Title of Circuit Court of Appeals and Cause.]

Appeals from the District Court of the United States for the Southern District of California, Central Division.

Before: Denman, Mathews and Orr, Circuit Judges.

Orr, Circuit Judge:

OPINION AND DISSENTING OPINION

On June 28, 1941, the District Court for the Southern District of California entered interlocutory judgments holding the Reilly-Stone patent No. 1,625,391, owned by appellee Kammerer Corporation and licensed to appellee Baash-Ross Tool Company, to be valid and infringed by appellant [39 F. Supp. 213]. A permanent injunction was granted [1] and appellant was ordered to pay appellees such profits and damages as an accounting would show were sustained as a result of the infringement. [59]

On appeal here we affirmed [138 F. 2d., 482], and denied a petition for rehearing [143 F. 2d., 595]. Certiorari to the Supreme Court was sought and denied [322 U. S. 739], but granted on petition for rehearing [322 U. S. 765]. The granting of certiorari was to consider the contention of appellant that appellee Kammerer's license agreement with appellee Baash-Ross contained restrictions, un-

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damage for infringement the only issue.

[1] The patent expired on April 18, 1944, leaving

authorized by the patent, against public policy and unlawful.

After hearing, the Supreme Court dismissed the writ of certiorari [323 U. S. 327], holding that the "only question for which we granted certiorari is one not properly raised, litigated, or passed upon below", because the District Court had made no findings on this issue of unlawful patent use, nor had the matter been raised before this court on appeal.

On dismissal of the writ of certiorari appellant moved this court for a denial of the accounting and damages to appellees, or, in the alternative, that appellant be permitted to make such a motion in the District Court.

We amended our former judgment of affirmance and remanded the cause to the District Court saying:

"In this court the appellant, admitting the finality of our judgment that the patent is valid and infringed by him, repeats his claim that the license agreement of appellees violates the public interest. He moves that the ordered accountings, damages and costs be denied appellees by this court; or, in the alternative, that permission be granted him to move in the District Court below that such relief be denied appellees. The motion was argued on behalf of all the parties and submitted.

"Without passing upon the merits of appellant's contention respecting the effect on the public in-

terest of appellees' license agreement, and without altering our judgment affirming the judgments of the district court as to the validity of the patent and its infringement, it is ordered that the judgment of this court be otherwise amended to provide that the cause be remanded to the district court and that that court may entertain a motion or motions based upon such contention to modify or set aside its order or orders for [60] such damages and accountings thereof, and take such action thereon as it may determine." (148 F. 2d, 525, 526.)

In the District Court appellant moved (a) to modify the interlocutory judgment of June 28, 1941, by eliminating the provision for an accounting and for payment by appellants to appellees of damages for infringement, and, (b) for final judgment dismissing the original complaints of appellees. In support of this motion appellant pressed its contention of patent misuse of restraint of trade.

The District Court on June 5, 1945, denied appellant's motion to modify the original judgment, to stay the accounting, and for final judgment dismissing the complaints, and ordered that the accounting be resumed.

From the order denying the motion to modify the judgment, and denying the motion to dismiss the original complaints, appellant has appealed. Appellant contends that jurisdiction of this court to entertain said appeal is found in § 129 of the Judicial Code, as amended, (28 U.S.C.A. § 227 (a)), which reads:

"When in any suit in equity for the infringement of letters patent for inventions, a decree is rendered which is final except for the ordering of an accounting, an appeal may be taken from such decree to the circuit court of appeals: Provided, that such appeal be taken within thirty days from the entry of such decree or from February 28, 1927; and the proceedings upon the accounting in the court below shall not be stayed unless so ordered by that court during the pendency of such appeal."

We do not agree. Said section has no application since the order appealed from is not a decree, final or otherwise. A denial of a motion to modify a judgment and a denial of a motion to dismiss a complaint is not a final decree within § 227 (a).[2] It is true that an "order" can be a "judgment",[3] and it is equally true that it is the court's action which determines the character of its decision. But here the District Court specifically refused [61] to enter a "supplementary interlocutory judgment". Its order reads:

"Motion for entry of Supplemental Interlocutory Judgment is denied, as the motion to modify the judgment was denied, the original judgment stands. L.R.Y."

Appellant appealed from the interlocutory judgment of June 28, 1941, under Judicial Code § 129, as amended. No further appeal under this section

[2]See cases in footnotes 4 and 5.

[3]Rule 54, Fed. Rules of Civ. Proc.; Rosenberg v. Heffron, 131 F. 2d., 80, 82, CCA 9.

is open to him because the interlocutory judgment appealed from stands and is still "final except for the order of an accounting".

The order of June 5, 1945, denying the motion to modify the judgment was not a "final decision" within § 128 of the Judicial Code,[4] nor was the order denying the motion to dismiss a final judgment so as to give us jurisdiction of the attempted appeal from said order.[5]

In Catlin v U. S., 324 U. S. 229, 236, the Supreme Court, speaking of a motion to disiniss the Government's petition for condemnation, which motion had been denied, and from which order of denial an appeal had been dismissed by the Circuit Court of Appeals, said:

"Had this motion [to dismiss] been granted and judgment of dismissal been entered, clearly there would have been an end of the litigation and appeal would lie within § 128 [citing cases]. But denial of

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[4]Richfield Supply Co. v. Richfield Oil Co., 74 F. 2nd., 909, CCA 9;
Jackson v. Heiser, 111 F. 2d., 310, CCA 9;
Old Colony Trust Co. v. Kurn, et al., 138 F. 2d., 394, CCA 8;
See: Bowers v. E. J. Rose Co., 149 F. 2d., 613, CCA 9;
Bensen v. U. S., 93 F. 2d., 749, CCA 9.

[5]Catlin v. U. S., 324 U. S. 229;
Western Fruit Growers Inc. v. U. S. 124 F. 2d., 381, 385, CCA 9;
Toomey v. Toomey, 149 F. 2d., 19, CCA, DC;
Ballard v. Mutual Life Ins. Co. of N. Y., 109 F. 2d., 388, CCA 5.

a motion to dismiss, even when the motion is based on jurisdictional grounds, is not immediately reviewable [citing cases]. Certainly this is true whenever the question may be saved for disposition upon review of final judgment disposing of all issues involved in the litigation. * * *"

In this case had the motion to dismiss been granted there would have been an end to the litigation but having denied the motion [62] and permitted the interlocutory judgment to stand as originally entered, the question presented by this appeal "may be saved for disposition upon review of final judgment disposing of all issues involved in the litigation", that is, when final judgment after the accounting is entered.

Appeal dismissed.

Denman, Circuit Judge, dissenting:

The Supreme Court has held that, where presented, the issue of the misuse of a patent, against the public interest, is "dominant." The words of Mercoid Corp. v. Midcontinent Investment Co., 320 U. S. 661, 665, are that it is not the private use but "the public use which is dominant." Cf. Vitamin Technologists v. Wisconsin Alumni Research, 146 F. 2d 941, 944.

Where the dominant public interest is violated the court will refuse all equitable relief, here the equitable relief of injunction and accounting. Mercoid Corp. v. Midcontinent Investment Co., supra, 670. Such a dominent interest will be protected sua

sponte by an appellate court where it discovers such violation. Beasley v. Texas & Pac. Ry. Co., 191 U. S. 492, 498.

It is apparent that if the complaint here had tendered such a dominant issue, with the issues of validity and infringement, and on a motion to dismiss that issue had been decided adversely to the plaintiff, and the issues of validity and infringement held for the plaintiff and an accounting ordered, the decision of the issue of public misuse would have been "final except for an accounting" within 28 U.S.C.A. § 227 (a).

Such a dominant issue was presented to this court. We referred it to the district court with the power to entertain and decide that issue through the medium of a motion to deny the equitable relief of an accounting. The district court entertained a motion for the decision of that dominant issue and its adverse decision adjudicated it finally, except for an accounting. Its order was a final decision, except for an accounting. There was nothing else for the lower court to do.

I dissent from the holding that the denial of that motion is not a final decision on the dominant issue because it was presented [63] in such a motion. This is a clear case of obscuring in the form the essence of what, under our order, the lower court undertook and did.

To say, as the opinion does, that the order would be final and appealable if it had been decided the other way, makes clear that the court's opinion is

not thinking of what the issue was that was decided but of the form of procedure in which the issue was presented.

Moreover, our order gave the lower court the power "to take such action thereon as it may determine." The lower court did more than entertain the motion to deny the equitable relief of accounting. It entertained and denied appellant's motion to dismiss the action, not the judgment. This is what the court could have done sua sponte. While in other than patent litigation such a denial of a motion to dismiss, on a ground requiring dismissal if valid, is not appealable, in a patent suit where nothing remains but the equitable relief of accounting, it is appealable.

No one of the cases cited to the proposition of the lack of appealable finality in an order denying a motion to vacate an order, is a patent case in which the lower court had been permitted to decide the dominant issue of public misuse. None had presented, much less considered, the situation where the motion for the first time presents the issue of public misuse—an issue, as seen, to be injected into the case by the appellate court sua sponte at any time—requiring the setting aside of the order as a mere incident of dismissing the action for equitable relief in its entirety.

The appeal should be entertained.

[Endorsed]: Opinion and Dissenting. Filed Jan. 29, 1946. Paul P. O'Brien, Clerk. [61]

United States Circuit Court of Appeals for the Ninth Circuit

No. 11122

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION and BAASH-ROSS TOOL COMPANY,

Appellees.

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION and BAASH-RSS TOOL COMPANY,

Appellees.

DECREE

Appeals from the District Court of the United States for the Southern District of California, Central Division.

This cause came on to be heard on the Transcript of the Record from the District Court of the United States for the Southern District of California, Central Division, and was duly submitted.

On consideration whereof, it is now here ordered, adjudged, and decreed by this Court, that the appeals in this cause be, and hereby are dismissed, with costs in favor of the appellees and against the appellant.

It is further ordered, adjudged, and decreed by this Court, that the appellees recover against the appellant for their costs herein expended, and have execution therefor.

[Endorsed]: Filed and entered June 29, 1946. Paul P. O'Brien, Clerk. [65]

[Title of Circuit Court of Appeals and Cause.]

PETITION FOR REHEARING

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[Title of Circuit Court of Appeals and Cause.]

PETITION FOR REHEARING

To the Honorable Judges of the United States Circuit Court of Appeals for the Ninth Circuit:

Appellant, feeling aggrieved by the decision of this Court on June 29, 1946, dismissing the appeals, respectfully submits this petition for a rehearing.[1]

The order of June 5, 1945, from which these appeals were taken, denied defendant's motion to modify the interlocutory judgments, stay the accountings and dismiss the complaints. The basis for the motions was that the patent in suit had been misused in a manner affecting the public interest, for which reason plaintiffs were entitled to no further equitable relief.

The motion served to call the District Court's particular attention, for the first time, to a certain license agreement in evidence (Plaintiff's Exhibit 7) which contained restrictive covenants in restraint of trade and in violation of the anti-monopoly laws.[2] A full hearing was had and the District Judge made

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[1]This petition is filed without prejudice to the motion to Modify or Set Aside Decree, Recall Mandate, etc., now pending before this Court and undecided in Appeal No. 9957. [67]

[2]Relying on Morton Salt Co. v. G. S. Suppinger, 314 U. S. 488, 62 S. Ct. 402; Mercoid Corp. v. Mid-continent Inv. Co., 320 U. S. 661, 64 S. Ct. 268; Vitamin Technologists v. Wisconsin Alumni Research, 146 F. (2d) 941 (CCA 9th), and other cases cited.

many additional findings of fact and conclusions of law, together with his opinion and order.

MAJORITY OPINION OF THIS COURT

The majority opinion of this Court seems to rest upon three grounds, viz: (1) that the District Court's order of June 5, 1945, "is not a decree, final or otherwise"; (2) that "a denial of a motion to modify a judgment and a denial of a motion to dismiss a complaint is not a final decree within Section 227(a)"; and (3) that "The order of June 5, 1945, denying the motion to modify the judgment was not a 'final decision' within Section 128 of the Judicial Code, nor was the order denying the motion to dismiss a final judgment". [68]

We respectfully submit:

1. That the District Court's order of June 5, 1945, is a "decree" or "judgment", final except for "the ordering of an accounting", and

2. That a denial of a motion to modify a judgment and a denial of a motion to dismiss a complaint is a final decree within Section 227a of Title 28 U.S.C. in a case such as this, in which the District Court, in acting on these motions, initially determined a new issue expressly left open by the mandate of this Court.

We have not contended that the order is a final decision within the meaning of part (a) of Section 128 of Judicial Code (28 U.S.C.A. 225 part a), which is the third ground upon which this Court's opinion seems to rest.

None of the cases cited in the majority opinion:

1. Are cases which hold that an applicable "final decision cannot be incorporated in an interlocutory order, judgment or decree".

2. Involved the public interest.

3. Are patent suits, with the exception of Bowers v. E. J. Rise Co., 149 F. (2d) 613, in which a motion was made to set aside the judgments because of excusable neglect,—an entirely different situation, or

4. Are cases in which the district court in acting on the motions initially determined a new issue expressly left open by the mandate of an appellate court. [69]

I.

THE ORDER OF JUNE 5, 1945, IS A FINAL JUDGMENT OR DECREE, EXCEPT FOR AN ACCOUNTING, UNDER SECTION 227(a) SINCE THE DISTRICT COURT IN ACTING ON THE MOTIONS INITIALLY DETERMINED A NEW ISSUE EXPRESSLY LEFT OPEN BY THE MANDATE OF THIS COURT.

Briefly, our reasons for contending that the order is appealable are as follows:

1. This is a patent suit, in which an appeal from an interlocutory order is expressly allowed by statute, when such order finally decides all other questions and ends the litigation, save and except

an accounting for the exact amount of profits and damages. The reason for this exception, permitting an appeal from an interlocutory order or decree, is to avoid the expense and delay of an accounting, until the appellate court can determine all the other issues in the case.

2. The District Court in passing on these motions initially decided a new issue expressly left open by the mandate of this Court. This Court, recognizing the finality of the interlocutory judgments previously entered herein, except for the accounting, remanded the cause to the District Court for the special purpose of determining the question of patent misuse, which question had not been decided in the interlocutory judgments from which the prior appeals had been taken. That question was finally decided by the District Court and many additional findings of fact and conclusions of law were made. Although termed motions to modify and set aside interlocutory judgments, these motions also served to call the District Court's attention to a violation of the public interest. The denial of these motions resulted in the order of June 5, [70] 1945, which finally determined the question of patent misuse and left this patent infringement suit "final except for the ordering of an accounting." The fact that this final decision on a dominant issue was presented in the form of a denial of a motion should not detract from what the lower court undertook and did.

3. An accounting before a master in a patent

infringement suit is protracted and expensive. If this Court does not now decide the question of patent misuse, years may pass before another appeal can be taken from the Final Judgment entered by the District Court (Bingham Pump Co. v. Edwards, 118 F. (2d) 338, CCA 9th). As expressed in open court at the hearing of this appeal on May 17, 1946, all parties to this litigation are desirous of settling the question of patent misuse now.

4. The Order from which these appeals were taken was based upon many additional findings of fact and conclusions of law and is a new "Judgment", whether so called or not, from which an appeal lies. If the District Judge's statement after the decision that "the original judgment stands" must be taken literally, then the former interlocutory judgments have been reaffirmed upon additional findings of fact and conclusions of law, having the force and effect of new judgments from which appeals lie. The object of findings and conclusions on patent misuse was to aid the appellate court in understanding the basis for the decision below and judgment entered thereon.

5. The public interest is here involved in that the patent has been misused.

6. The public interest can be protected sua sponte by an appellate court at any time during the pendency of a suit, when called to the attention of that court in some [71] appropriate manner, under which circumstances a liberal rather than a strict interpretation of the statutes is permitted.

The very meaning of public policy is the interest of others, and that interest is not at the mercy of the parties to the litigation.

II.

THE ORDER OF JUNE 5, 1945, NEED NOT BE CALLED A "JUDGMENT" OR "DECREE" SO AS TO BE APPEALABLE, SINCE THE RIGHT TO REVIEW "INTERLOCUTORY ORDERS" IS EXPRESSLY PROVIDED BY STATUTE AND IS COMMON IN FEDERAL COURTS.

There is no statute or rule of law with which we are familiar requiring the document appealed from to be called a "Judgment" or "Decree". Indeed, part (b) of Section 225 of Title 28 U.S.C.A. (Judicial Code Section 128) specifically gives the Circuit Court of Appeals the right to review "interlocutory orders or decrees of district courts," and this Court said that "Circuit Courts of Appeals have many times entertained appeals from orders denying motions . . ."[1] and that "a final decision is an order substantially terminating the litigation".[2] Additional authorities are cited in the succeeding section of this petition.

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[1]Gargano v. United States, 140 F. (2d) 118 (CCA 9th), opinion by Judge Mathews.

[2]Benson v. United States, 93 F. (2d) 749, 750 (CCA 9th), opinion by Judge Denman. Also in Wiley v. United States, 144 F. (2d) 707, this Court held that the "order" denying a motion to vacate a judgment was appealable.

The majorty opinion recognizes this fact in that it states "It is true that an 'order' can be a 'judgment', and it is equally true that it is the Court's action which [72] determines the character of its decision." (Opinion p. 61). In support of this statement the court cites Rule 54 of the Federal Rules of Civil Procedure which provides that a "Judgement", as used in the rules, "includes a decree or any order from which an appeal lies."

If the District Court had granted our motion to enter "Supplemental Interlocutory Judgement", in addition to making "Findings of Fact, Conclusions of Law and Order Denying Defendant's Motions", an appeal clearly could have been taken under the provisions of 28 U.S.C.A. 227(a).

Our motion for entry of a "Supplemental Interlocutory Judgement" was only for the purpose of adding a determination against patent misuse to the former "Interlocutory Judgment" and recasting the whole into one document in the more familiar form of an Interlocutory Judgment. The statement of the District Judge that "the original judgment stands" is unimportant because, irrespective of his personal views, the fact remains that a new issue had been decided. The action of the District Judge in refusing to enter such a supplemental judgment should not prevent the applicability of Section 227(a) and deny defendant his right to appeal.

III.

THE LAW

By its language, the appellate statute (28 U.S.C.A. 225) gives the federal court jurisdiction to review not only (a) final decisions but also (b) interlocutory orders or decrees of district courts which are "specified in Section 227 of this title." These reviewable interlocutory orders relate to injunctions, receivers, admiralty and patent suits (28 U.S.C.A. 225b, 225c, 227 and 227a). It is plain, therefore, that the Circuit Court of Appeals can review both final [73] decisions, which end litigation altogether, and also interlocutory orders and decrees in exceptional instances, including those entered in patent suits.

In the leading case of Smith v. Vulcan Iron Works, 165 U. S. 518, a patent infringement suit, an appeal was taken from an interlocutory order or decree granting an injuction and ordering an accounting. The manifest intent of the statute, allowing an appeal from such an interlocutory order, said the Court, was "not only to permit the defendant to obtain immediate relief from an injunction . . . but also to save both parties from the expense of further litigation should the appellate court be of the opinion that the plaintiff was not entitled to an injunction because his bill had no equity to support it."

Formerly an appeal in equity from an interlocutory order or decree, finding a patent valid and infringed and awarding an accounting, was taken

under Judicial Code Section 129 (now 28 U.S.C.A. 227), because an injunction had been granted. If, however, the patent expired before the interlocutory decree was entered, no injunction would issue and an appeal could not be taken until a full accounting was had. Because of the enormous expense involved in a patent accounting, frequently taking years to complete[1], Judicial Code Section 129 was amended [74] February 28, 1927, and appeals from an interlocutory order or decree in a patent suit may now be taken, whether or not there is an injunction, providing only that the decree entered "is final except for the ordering of an accounting". It is that amendment, now embodied in 28 U.S.C.A. 227a, relating only to patent suits, under which this appeal has been taken.[2]

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[1]The Master's Report in Ruth v. Stearns-Roger Mfg. Co., 13 F. Supp. 697, will serve to illustrate the complexity of patent accountings. The report was approved by the District Court three years after the opinion of the Court of Appeals, Stearns-Roger Mfg. Co. v. Ruth, 62 F. (2d) 442. One of the leading cases on patent accounting in the Ninth Circuit is Dunkley Co. v. Central California Canneries, 7 F. (2d) 972. This court affirmed the District Court, finding the patent valid and infringed and filed its opinion on October 1, 1917 (247 Fed. 790). Almost eight years later, on September 14, 1925, this court affirmed the Master's Report on accounting, allowing a $12,000 fee to the Master, though plaintiff was only awarded $11,403.23 as profits and damages.

[2]Report by Committee on Patents, Senate No. 1319 and House of Representatives No. 1890, 69th Congress, 2nd Session, recommending passage of Senate Bill No. 1346 and H.R. 11849.

The order or decree here appealed from is interlocutory in form because an accounting is to follow, but it is final in substance as to all questions, including patent misuse, except for such accounting. Whether or not the order or decree is termed "interlocutory" or "final", one thing would appear certain: It is "final except for the ordering of an accounting", viz., the defense of patent misuse has been finally decided against defendant and the case is closed except for the accounting, therefore, coming within the precise language which allows appeals from interlocutory orders in patent suits (28 U.S.C.A. 227a).

A "final decision" embodied in an interlocutory order or decree, from which an appeal may be taken, is not the ultimate decree completely closing up a case. The Circuit Court of Appeals for the Tenth Circuit in Kasishke v. Baker, 144 F. (2d) 384, 386, had the following to say on that point:

"'A "final decision" is not necessarily the ultimate judgment or decree completely closing up a proceeding. In the course of a proceeding there may be one or more final decisions on particular phases of the litigation, reserving other matters for future determination.' [74] Rubert Hermanos Inc., et al. v. People of Puerto Rico, supra (118 F. (2d) 757).[1]

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[1] See, also, Puerto Rico Light and Power Co. v. United States, 131 F. (2d) 491.

The new federal rules which permit the court to order separate trial of issues indicates a "definite

"A judgment need not conclude the litigation as a whole in order to be final for the purposes of appeal. Admittedly the judgment under consideration, if it stands, does not put an end to the litigation—something remains to be done. But when we examine the judgment that was actually entered in the light of the authorities, supra, we conclude it is final and appealable. It definitely fixes the rights of the parties in and to certain specific property. It provides as to that question it is final . . . Why not determine that question now, and avoid any uncertainty as to the right to an accounting, which the parties all admit will be expensive and require much time? Practical considerations in the administration of justice suggest the necessity of treating the judgment as final."

In that case, as here, practical considerations suggest that there should be a speedy determination, of whether plaintiffs are entitled to an accounting.

This Court, denying a motion to dismiss the appeal in a patent infringement suit, in Brush Electric Co. v. Electric Imp. Co., 51 Fed. 557, 561 (CCA 9th), expressing the liberal view had the following to say:

". . . Considering the construction given by the supreme court to the terms 'final decisions,' 'judgments,' or 'decrees,' we reach the conclusion that

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policy" to permit the entry of separate judgments, as, for example, in Reeves v. Beardall, 316 U. S. 283, 62 S. Ct. 1085, 1087, and Collins v. Metro-Goldwyn Pictures Corporation, 106 F. (2d) 83, 85.

the term [76] 'final decision' in said statute under consideration does not mean necessarily such decisions or decrees only which finally determine all the issues presented by the pleadings; that, while these are undoubtedly final decisions, the terms are not limited to them, but also apply to a final determination of a collateral matter distinct from the general subject of litigation, affecting only the parties to the particular controversy, and finally settles that controversy. It would seem, also, that the importance of this collateral matter should be considered.' Terry v. Sharon, 131 U. S. 46, 9 Sup. Ct. Rep. 705."

"The order overruling the motion of the Brush Electric Company to dismiss the cause as to it, does seem to have been the final determination of a most important question, collateral in its character. In considering the motion, questions of fact and of law were involved. Distinct issues of both were presented. They were such as were not presented by the general issues in the case. These questions would not be again presented. They were not preliminary to the decree upon the merits, or involved in the decree upon the merits. The order determining the issues upon this motion we therefore hold was a 'final decision,' within the meaning of the statute concerning appeals in this court above referred to, and was therefore the subject of an appeal thereunder."

In United States v. 243.22 Acres, 129 F. (2d) 678, 680 (CCA 2nd), Judge Frank has the follow-

ing to say regarding the expression "final decision":

"'Final' is not a clear one-purpose word; it is slithery, tricky. It does not have a meaning constant in all contexts. What was said as to 'final' orders [77] a half century ago still holds: 'The cases, it must be conceded, are not altogether harmonious.' There is, still, too little finality about 'finality'. '"A final decision" is not necessarily the ultimate judgment or decree completely closing up a proceeding.' But it is not easy to determine what decisions short of that point are final."

In this Court, Judge Mathews, writing the opinion in Gargano v. United States, 140 F. (2d) 118[1] said:

". . . . Circuit courts of appeal have many times entertained appeals from orders denying motions to amend, modify, vacate or set aside judgments in criminal cases and so, in effect, have held that such orders are final decisions. The Supreme Court, in several cases, appears to have assumed the appealability of orders granting or denying such motions, which is to say, it appears to have assumed that such orders are final decisions." (Citing cases.)

Judge Denman, in the earlier case of Bensen v. United States, 93 F. (2d) 749, 750, says that:

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[1]To the same effect is Wilson v. United States, 145 F. (2d) 734, 735, also opinion by Judge Mathews, on an appeal from an order denying a motion to vacate a judgment.

"The test of finality, hence reviewability, is the same from criminal and civil cases."

Again in Favour v. Hill, 136 F. (2d) 489 (CCA 9th), it was held that an "order" of the District Court pursuant to the mandate of this Court, "is a final judgment from which petitioners have the right to appeal if the mandate is not followed."

In Swan Carburetor Co. v. Nash Motors Co., 98 F. (2d) 115, it was held that the appellate court had jurisdiction of an appeal from an order denying plaintiff's motion to [78] strike portions of an answer in a patent infringement suit, where defendant raised no question as to plaintiff's right to appeal.

In Marconi Wireless v. United States, 320 U. S. 1, 47; 62 S. Ct. 1393, 1415, the Supreme Court held that the interlocutory decision of the Court of Claims on the question of validity and infringement of a patent was appealable, "as are interlocutory orders of district courts in suits to enjoin infringements," for which reason a court "did not lack power at any time prior to entry of its final judgment at the close of the accounting to reconsider any portion of its decision and reopen any part of the case," citing John Simmons Co. v. Grier Bros. Co., 258 U. S. 82; 42 S. Ct. 196, adding:

"It was free in its discretion to grant a reargument based either on all the evidence then of record or only the evidence before the court when it

rendered its interlocutory decision, or to reopen the case for further evidence."

The question whether a decree is final and appealable, according to Potter v. Beal, 50 Fed. 860, is not determined by the name which the court below gives it, but is to be decided by the appellate court on a consideration of the essence of what is done.

Regarding the finality of a decree or judgment for appeal purposes, O'Brien's Manual of Federal Appellate Procedure, page 26, says that "Where a decree contemplates further proceedings in the lower court, a right of appeal might be made upon the new hearing," citing Waialua Agr. Co. v. Christian, 52 F. (2d) 847 (CCA 9th). Second appeals in the same case are common in the federal courts. (Our opening brief, pages 4-7.) [79]

CONCLUSION.

The order, therefore, from which an appeal was taken, though not the ultimate final judgment because an accounting was to follow, nevertheless was a final decision on all other matters including patent misuse, and it appears to us, 28 U.S.C.A. 227a (Judicial Code 129 as amended) directly applies. Nothing more is to be done in the District Court, save the accounting.

A rehearing is respectfully petitioned.

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
Attorneys for Appellant.

Of Counsel:

W. BRUCE BECKLEY
BOYKEN, MOHLER & BECKLEY.

Dated: August 27, 1946.

CERTIFICATE

It is hereby certified that in our judgment the foregoing Petition for Rehearing is well founded and is not interposed for delay.

R. WELTON WHANN
A. W. BOYKEN
ROBERT M. McMANIGAL
Attorneys for Appellant.

Of Counsel:

W. BRUCE BECKLEY.

[Endorsed]: Filed Aug. 28, 1946. Paul P. O'Brien, Clerk. [80]

United States Circuit Court of Appeals for the Ninth Circuit

Excerpts from Proceedings of Monday, September 9, 1946.

Before: Denman, Mathews and Orr, Circuit Judges.

[Title of Cause.]

ORDER DENYING PETITION FOR REHEARING

Upon consideration thereof, and by direction of the Court—Denman, C. J. dissenting—It is ordered that the petition of appellant, filed August 28, 1946, and within time allowed therefor by rule of court, and valid extension thereof, for a rehearing of above cause be, and hereby is denied. [81]

[Title of Circuit Court of Appeals and Cause.]

CERTIFICATE OF CLERK, U. S. CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT, TO RECORD CERTIFIED UNDER RULE 38 OF THE REVISED RULES OF THE SUPREME COURT OF THE UNITED STATES.

I, Paul P. O'Brien, as Clerk of the United States Circuit Court of Appeals for the Ninth Circuit, do hereby certify the foregoing two volumes, consisting of eighty-one (81) pages, numbered from and including 1 to and including 81, to be a full, true and correct copy of the entire record of the above-entitled case in the said Circuit Court of Appeals, made pursuant to request of counsel for the appellant, and certified under Rule 38 of the Revised Rules of the Supreme Court of the United States, as the originals thereof remain on file and appear of record in my office.

Attest my hand and the seal of the said the United States Circuit Court of Appeals, for the Ninth Circuit, at the City of San Francisco, in the State of California, this 22nd day of November, 1946.

[Seal] /s/ PAUL P. O'BRIEN,
Clerk. [82]

Vol. VII

TRANSCRIPT OF RECORD

(Pages 1099 to 1182)

Supreme Court of the United States

OCTOBER TERM, 1946

No. 755

IRA J. McCULLOUGH, PETITIONER,

vs.

KAMMERER CORPORATION AND BAASH-ROSS TOOL COMPANY

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

PETITION FOR CERTIORARI FILED DECEMBER 6 1946.

CERTIORARI GRANTED FEBRUARY 3, 1947.

No. 9957

IN THE

United States Circuit Court of Appeals
For the Ninth Circuit

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Appellees.

AND

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Appellee.

Upon Appeals from the District Court of the United States for the Northern District of California, Southern Division

PROCEEDINGS HAD IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

(After Remand of Cause From Supreme Court of United States)

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Supreme Court of the United States

No. 836—October Term, 1943

IRA J. McCULLOUGH,

Petitioner,

vs.

KAMMERER CORPORATION and BAASH-ROSS TOOL COMPANY.

On Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit.

A petition for rehearing having been submitted in this case;

Upon consideration thereof, it is ordered by this Court that the petition for rehearing be, and the same is hereby, granted.

And it is further ordered that the order denying certiorari, entered May 8, 1944, be, and the same is hereby, vacated; and that the petition for writ of certiorari herein be, and the same is hereby, granted.

And it is further ordered that the duly certified copy of the transcript of the proceedings below

which accompanied the petition shall be treated as though filed in response to such writ.

June 5, 1944.

A true copy

Test:

[Seal] CHARLES ELMORE CROPLEY,
Clerk of the Supreme Court of the United States.

By: HUGH W. BARR,
Deputy.

[Endorsed]: Filed June 12, 1944. Paul P. O'Brien, Clerk. [1099]

United States of America--ss.

The President of the United States of America,

[Seal]

To the Honorable the Judges of the United States Circuit Court of Appeals for the Ninth Circuit,

Greeting:

Whereas, lately in the United States Circuit Court of Appeals for the Ninth Circuit, in a cause between Ira J. McCullough, Appellant, and Kammerer Corporation and Baash-Ross Tool Company, Appellees, No. 9957, wherein the judgment of the said Circuit Court of Appeals, entered in said cause on the 18th day of October, A. D. 1943, was in favor of the said appellees, Kammerer Corporation et al., and against the said appellant; as by the

inspection of the transcript of the record of the said United States Circuit Court of Appeals which was brought into the Supreme Court of the United States by virtue of a writ of certiorari, agreeably to the act of Congress, in such case made and provided, fully and at large appears.

And whereas, in the present term of October, in the year of our Lord one thousand nine hundred and forty-four—the said cause came on to be heard before the said Supreme Court, in the said transcript of record, and was argued by counsel:

On consideration whereof, It is now here ordered by this Court that the writ of certiorari in this cause, be, and the same is hereby, dismissed with costs; and that the said appellees, Kammerer Corporation, et al., recover against the said appellant Twenty Dollars, the attorney's docket fee herein, and have execution therefor.

And it is further ordered, That this cause be, and the same is hereby, remanded to the said Circuit Court of Appeals.

January 2, 1945.

You, therefore, are hereby commanded that such execution and proceedings be had in said cause, as according to right and justice, and the laws of the United States, ought to be had, the said writ of certiorari notwithstanding.

Witness, the Honorable Harlan F. Stone, Chief Justice of the United States, the fifth day of Feb-

ruary, in the year of our Lord one thousand nine hundred and forty-five.

Cost of appellees.

Clerk	$ paid
Attorney	$20.00
	$20.00

CHARLES ELMORE CROPLEY,
Clerk of the Supreme Court of the United States.

[Endorsed]: Filed February 10, 1945. Paul P. O'Brien, Clerk. [1100]

United States Circuit Court of Appeals
for the Ninth Circuit

No. 9957

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corportion,

Appellees.

MOTION FOR MODIFICATION OF APPELLATE COURT DECREE AND/OR FOR PERMISSION TO APPLY TO THE DISTRICT COURT

Now Comes appellant Ira J. McCullough and moves this Court for a modification of its decree

herein, dated October 18, 1943, affirming the District Court in finding the patent in suit valid and infringed, by eliminating from such decree any affirmance of paragraphs VI and VII of the two District Court Interlocutory Judgments (R. 121-122, 126), providing for payment by defendant to plaintiffs of profits and damages for alleged patent infringement, with costs of suit. [1102]

The grounds for this motion are that plaintiffs (appellees here) have used the patent in suit contrary to public policy and in restraint of trade, for which reasons they come into a Court of Equity with "unclean hands" and are not entitled to an accounting of profits and damages for alleged patent infringement.

The Reilly and Stone patent suit, which this Court in the majority opinion found valid and infringed (138 F. (2d) 482), expired on April 18, 1944, and the injunction terminated on that date. That opinion is not now here questioned. Validity and infringement having been found, the only remaining issue is whether appellees, because of the misuse of the patent, should proceed with an accounting, as provided for in paragraphs VI and VII of the Interlocutory Judgments entered in the District Court.

In the alternative, appellant moves for permission to apply to the District Court to reform said Interlocutory Judgments and stay the accounting, or for such other and different relief as may seem proper.

At the hearing appellant will rely on the proceedings in the United States Supreme Court herein, the transcript of record and particularly the license agreement between appellees (Pltffs'. Ex. 7, R. 179, 854), reproduced as an appendix hereto, and the following points and authorities.

R. WELTON WHANN,
A. W. BOYKEN,
ROBERT M. McMANIGAL,
Attorneys for Appellant.

I Hereby Certify that, in my judgment, the foregoing motion is well founded and that it is not interposed for delay.

A. W. BOYKEN,
Attorney for Appellant.

Dated: January 25, 1945. [1104]

Points and Authorities in Support of Motion

I.

THE SUPREME COURT OF THE UNITED STATES PASSED THE ISSUES HEREIN RAISED TO THE COURTS "BELOW" FOR DECISION.

A petition for writ of certiorari was filed by appellant in the Supreme Court of the United States, subsequent to the entry of a decree by this Court, alleging misuse of the patent in suit upon substantially the same grounds as hereinafter urged.

and the petition was granted on June 5, 1944. 322 U.S. 766; 64 S.Ct. 1277. Meanwhile, the mandate to the District Court was stayed, pending a decision of the Supreme Court.

The case was briefed and fully argued in the Supreme Court on December 11, 1944, the Solicitor General filing an amicus curiae brief. On January 2, 1945, the Supreme Court dismissed the writ of certiorari upon the ground that the issues therein raised were "not properly raised, litigated or passed upon below." ..... U.S. ..... ; 65 S.Ct. 297.

The purpose of this motion is to submit the same issues to this Court or, in the alternative, to the District Court, so that they may be "properly raised, litigated or passed upon below."

The Supreme Court sits as a court of final review. The fact that a writ of certiorari was granted is strongly persuasive that had the defense been presented below, the [1105] Court would have stayed the accounting and dismissed the suit.

II.

THE LICENSE AGREEMENT (PLTFFS'. EX. 7), EMBODIES RESTRICTIVE COVENANTS WHICH ARE AGAINST PUBLIC INTEREST AND IN RESTRAINT OF TRADE

Two suits, which were consolidated for trial, both involved the alleged infringement of the Reilly and Stone Patent No. 1,625,391, dated April 19, 1927

(now expired), covering a tool for cutting and removing stuck drill pipe from oil well holes. Appellees Kammerer Corporation and Baash-Ross Tool Company, plaintiffs below, were respectively the owner and exclusive licensee under said patent (R. 7, 11).

By the license agreement between appellees, the patent owner granted to the licensee the exclusive right and license to manufacture and use, but not to sell, devices embodying the invention of the aforesaid patent. The licensee covenanted "during the term of this license not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement." The licensor covenanted "during the term of this agreement, not to manufacture, sell, rent, license, use, or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement."

Under this license agreement, a system of renting the patented tool was devised, whereby the charge for performing [1106] a single cut of stuck drill pipe, as fixed in the agreement, was $190.00 (R. 290), though the agreement sets a value of only $300.00 on each tool (R. 857, 859). In other words, the oil well owner in this country could not purchase the patented cutter, but was obliged to rent the same, which included a service charge for the skill and labor of an operator in the employ of licensee (R. 288, 290, 291). Over two million dollars

was paid by the oil industry for so-caled rentals (R. 860-867), one-half of which amount went to licensor as a patent royalty under the license agreement (R. 177-178, 260; R. 850-867), at an excessive 50% rate and royalties were still paid at the time of trial (R. 257). Licensee does business throughout the oil fields of the United States and with foreign countries (R. 157). Appellee Baash-Ross Company found it commercially feasible to sell the patented tool in Canada while at the same time conducting a rental business there (R. 284).

The exact wording of offensive portions of the license agreement is as follows:

"1. The Licensor hereby grants to the Licensee the exclusive right and license to manufacture and use, but not to sell, devices embodying the aforesaid inventions under any Letters Patent now granted or which may hereafter be granted on any applications now pending or any patents hereafter obtained on improvement . . . said license to continue for the full term of any Letters Patent granted for said inventions or improvements thereon." (R. 854-855)

"2. The Licensee covenants and agrees during the term of this license to pay the Licensor hereunder upon all devices embodying the aforesaid inventions, [1107] a royalty of 50% of the gross earnings accruing by the use of said devices by the Licensee."

"3. The Licensee covenants and agrees during the term of this license to charge as a rental for

the use of said device or devices the sum of One Hundred and Ninety Dollars ($190.00) per cut made by said device or devices." (R. 855)

"11. The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement."

"12. The Licensor covenants and agrees that during the term of this agreement, not to manufacture, sell, rent, license, use, or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement." (R. 857-858)

Under the licensee agreement, appellees have been using their patent monopoly to:

(1) Suppress the use of competing devices;

(2) Suppress the sale of the patent device by both the patent owner and licensee;

(3) Fix prices for the use of the patented device, which require the use of an unpatented commodity.

We shall consider each of these separately. [1108]

1. The Covenants of Appellees Not to Deal in Devices Competitive With the Licensed Devices Constituted an Attempt to Extend the Patent Monopoly and Were Illegal.

It is apparent upon the face of the license agree-

ment that the covenants not to compete went beyond the patented devices licensed under the agreement and applied to any compting devices whatsoever. As a condition of the granting and receiving of the license for the patent in suit appellees debarred themselves wholly and unconditionally from dealing in devices competing with the devices licensed, irrespective of whether the competing devices are unpatented, are patented by others or even by the parties themselves.

That the obligations of those covenants went beyond the scope of the monopoly of the licensed patent seems too obvious to admit of dispute. By its covenant the licensor sought to require one of the important manufacturers and users of oil well drilling and fishing tool (R. 203, 287) to abandon the use of all drill cutters other than the licensed cutter (whether patented or unpatented) and to prevent it from using any newly developed competitive devices. The licensee, on the other hand, required, and the licensor assumed, similar obligations in restraint of trade.

The principles enunciated by the Supreme Court, for the violation of which certiorari was granted, seem clearly applicable to this case. Those principles have been concisely summarized in the statement that the licensor may not

". . . condition the license so as to control conduct by the licensee not embraced in the patent monopoly." [1109] Ethyl Gasoline Corporation et al.

v. United States, 309 U.S. 436, 456 (1940); 60 S.Ct. 618.

The result which we urge here, upon similar reasoning, was reached by the Circuit Court of Appeals for the Third Circuit in National Lockwasher Company v. George K. Garrett Company, Inc., 137 F. (2d) 255 (1943), in which the sole question before the Court was the legality of a patent license agreement which, in the words of the Court,

". . . contained a provision to the effect that the licensee agrees, while the agreement is in force, that it will not manufacture any other form of non-tangling spring washers except those covered by the patent in suit. It is not disputed that there are other forms of unpatented non-tangling spring washers than those involved in the Loutrel patent." (p. 256)

That Court, purporting to follows the decisions of the Supreme Court, said in part:

"We think the instant case, on the facts as the defendant represents them, falls within the principle of the case cited to the extent that the patentee is using the lawful monopoly granted by the patent as a means of suppressing the manufacture and sale of competing unpatented articles. It is not creating for itself a monopoly for unpatented goods, as in some of the cases cited. But it is attempting by means other than that of free competition, to extend the bounds of its lawful monopoly to make, use and vend the patented device to the extent where such device would be the only one available to a user

of such an article. This monopoly is obviously not covered by the patent. A patentee's right does not extend to the [1110] use of the patent to purge the market of competing non-patented goods except, of course, through the process of fair competition." (p. 256)

And, on the basis of evidence[1] which apparently consisted of little more than the existence and terms of such license agreements, the Court ordered the complaint dismissed on the ground that:

"We think this is enough; enough to show that the plaintiff was using its patent to suppress competition with it by non-patented articles. To the extent that the policy was successful the supply of

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[1]As in the National Lockwasher case, the Record in this case shows that competing devices for cutting and removing stuck pipe in well holes were available to the public. "Such tools were in common use long before Reilly and Stone claimed invention," said Judge Mathews in his dissenting opinion (R. 1093). Luther Patent No. 111,221 (R. 910), which expired in 1888, shows such a device. Kellogg Patent No. 657,777, Hill Patent No. 1,338,773, Jones Patent No. 1,454,819, and others, all expired, show casing or pipe-cutting tools (R. 930, 1002, 1018). The Segelhorst Patents Nos. 1,535,348, 1,599,067 and 1,767,018 (R. 1030, 1038, 1052), cover tools for cutting off and removing drill pipe or tubing within a well. Many others were shown and described in the patents enumerated in a footnote (R. 1093-4). Appellant's Patent No. 2,133,628 (R. 1061) is for an apparatus for externally cutting stuck pipe which is far superior to that disclosed in the patent in suit (R. 679-685).

competing non-patented washers would, of course, disappear." (p. 257)

The provisions of the license agreement between appellees in the present suit are substantially identical in words, and entirely identical in substance, with the license provisions considered by the Court in the National Lockwasher case. Indeed, the license agreement between appellees goes further in that not only did the licensee agree not to deal in competing devices, but did did the licensor. [1111]

The covenants of appellees, although of far broader scope, include an obligation to suppress their own inventions, even patented ones. Whatever right a patentee has not to use his patented invention (see Continental Paper Bag Company v. Eastern Paper Bag Company, 210 U.S. 405 (1908), he has no right to agree with another that he will not use it. This proposition was considered by the Court in Blount Manufacturing Company v. Yale & Towne Manufacturing Company, 166 Fed. 555, 560 (D. Mass. 1909), which said:

"Granting that nonuse of an invention is fully within the right of the owner of a patent, it does not follow that he may by agreement bind himself to nonuse, save in connection with an assignment of his letters patent. Ownership of a patent involves no obligation to use, nor does ownership of other property. Nonuse ordinarily violates no law; but contracting with another, putting it in the power of another to compel one not to use, is a contract in

restraint of trade, designed for the purpose of suppressing competition."

Similarly, a covenant like that of the licensor, made by a patentee in connection with an assignment of patents, has been held .

". . . void and invalid, and cannot be enforced, because it is in general restraint of trade, unreasonable and against public policy." (Jones Cold Store Door Co. of Washington County v. Jones, 70 Atl. 88, 91 (Md. 1908).)

The only possible argument in justification of the validity of the licensor's covenant not to compete is that such a covenant constitutes a reasonable restraint of trade because it is in aid of the granting of a license. Such an argument would, of course, if it had any validity, have been equally applicable to the restraint in the Jones case, supra. That the argument has no force, however, is, we believe, apparent from the scope of the covenant. The obligation assumed by the licensor is at least as great as it could legally have assumed if it had been made an ancillary to the conveyance of an entire business and its attendant good-will. In other words, it is far greater than was reasonably necessary to prevent derogation from the grant of the exclusive license. The rule as laid down by Lord Macnaghten and approved by Judge (later Mr. Chief Justice) Taft in United States v. Addyston Pipe & Steel Co. et al., 85 Fed. 271, 282 (C.C.A. 6th, 1898), mod. and aff'd 175 U.S. 211 (1899), is:

"We do not see how a better test can be applied

to the question whether this is or not a reasonable restraint of trade than by considering whether the restraint is such only as to afford a fair protection to the interests of the party in favor of whom it is given, and not so large as to interfere with the interests of the public. Whatever restraint is larger than the necessary protection of the party requires can be of no benefit to either. It can only be oppressive. It is, in the eye of the law, unreasonable. Whatever is injurious to the interests of the public is void on the ground of public policy."

Measured against this rule, which has become axiomatic in the law, the licensor's covenant is obviously unreasonable. The licensee had no right to restrain generally and without substantial limitation the licensor's business. [1113]

It cannot be contended that the covenant by the licensee that it would not manufacture or use or rent any competing device, patented or unpatented, was necessary for the portection of the licensor because the latter had placed in the licensee's hands the sole control and development of the patent. This situation is not unusual, and there are well established lawful methods whereby the licensor may protect himself. He may provide for minimum royalties. Or he may stipulate that if certain gross royalties are not attained, the license shall cease to be exclusive and he shall be free to license others. Or he may provide that in the event that a minimum number of tools were not manufactured and put to

use, the exclusive license would similarly become non-exclusive.

This pattern was not unknown to the draftsman of the license since he substantially followed it in Paragraph 14 of the agreement.[1] The provisions of that paragraph alone make clear the lack of any necessity, in protecting the return from the patent, for the covenant by the licensee not to manufacture, use or rent every present or future competing device. Necessarily, whatever may be an exclusive licensee's obligation to exploit, as a matter of law, or whatever obligations the licensor could have legally imposed upon the licensee, it is clear that the licensee's covenant transcended them. The obligation is absolutely without limitation and fails to make provision for the necessities of the licensee in the face of competition [1114] from superior devices or otherwise. That the unlimited restraint imposed by the licensor on the licensee may be more convenient or advantageous to the licensor is, of course, without relevance. B. B. Chemical Co. v. Ellis et al., 314 U.S. 495 (1942); 62 S. Ct. 406.

It is clear that appellees, in so far as they could, sought through the patent "to purge the market of competing" goods. This was not necessary for or even reasonably related to securing a full return

[1]There the licensor provided that if the licensee could not supply with the patented tool all of "the operators in the oil fields of the United States," the lincense would become non-exclusive and others could be licensed to whatever extent would be needed to cover this country-wide market.

from the invention, and hence was clearly outside the scope of the patent.

2. The License Agreement Between Respondents Preventing Sale of the Licensed Device by Either of Them Was Illegal.

Under the license agreement neither of appellees could sell the device covered by the licensed patent. Thus a restraint on the sale of the device has been created by agreement and may only be removed by further agreement between the parties.

This is not the usual case of one of the parties to a patent license agreement imposing restraints on itself in favor of the other, but which leaves the other free to act in the premises. It is a case where both of the parties have imposed restrains on themselves so effectually that neither of them can sell a device covered by the licensed patent. The result has been that for using a tool costing $300 to manufacture (R. 857, 859) the American oil well industry paid considerably over $2,000,000 in rentals (R. 860-867) on the basis of the disproportionate charge of $190 per use. It is submitted that an agreement which leaves neither party free to sell in this country is against public policy and illegal. [1115]

3. The Fixing of the Price Which the Licensee Much Charge for the Use of the Patented Tool, Including the Service Charge, Was Beyond the Scope of the Patent and Illegal.

So far as we know, the Supreme Court has never

held that a non-manufacturing licensor may in a license agreement fix the price which the licensee is to charge in the sale or for the use of the patented device. In United States v. General Electric Co. et al., 272 U.S. 476 (1926); 47 S.Ct. 192, the Court did hold that a manufacturing licensor may, as a condition of a license to another manufacturer, fix the price at which the licensee will sell. But it is implicit in both the reasoning and language of the opinion that the decision then made was to be limited to this situation. The Court pointed out that:

"One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent but not so as to destroy the profit that I wish to obtain by making them and selling them myself'." 272 U.S. 476, 490 (Underscore supplied.)[1]

In reaching this conclusion, however, the Court indicated that the criteria for examining the validity

[1] In United States v. Vehicular Parking, 54 F. Supp. 828, 838 (D. Del. 1944), the Court, in referring to this quotation, said: "From this language it appears that the decision in the General Electric case is predicated upon the patentee making and vending the patented device."

of conditions in a patent license was to determine whether they

"... are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." (Id.)

It has likewise become settled that licensing conditions are illegal which are not

"... used as a means of stimulating the commercial development and financial returns of the patented invention which is licensed, but for the commercial development of the business ..."

of those who are licensed. Ethyl Gasoline Corporation, et al. v. United States, 309 U.S. 436, 459 (1940); 60 S.Ct. 618; cf. Special Equipment Co. v. Coe, 144 F. (2d) 479 (App. D.C. 1944). In the present case the licensor could have exacted from the licensee a specific royalty for the use of the invention. If the licensor had been genuinely convinced of the commercial worth of the invention, and of the patented tool's ability to make its competive way unassisted by restrictive covenants, the licensor could have rested on the covenant of the license that a percentage of gross earnings or profit should be paid. But it went further and specified, in Paragraph 3 of the license, the price per cut which the licensee was to charge "as a rental for the use" of the patented tool.

It is submitted that in so doing it went beyond the lawful scope of the patent and was obviously seeking to control and protect the earnings of the

licensee. For the licensor has a legitimate interest only in what it gets from the invention. It engages neither in manufacture, sale, nor [1117] rental of the patented device. It has a legitimate interest only in the return on the license to use. It could fix a measurement for this amount. It could have specified a definite royalty leaving the licensee, in the conduct of its own business, to secure whatever "rental charge" competition required. It is submitted that in fixing the amount that the licensee had to "charge as a rental" it went beyond the scope of the patent.

That this is so is made clear by the record of actual practice in the operation of the agreement. The record discloses that in addition to providing its own employees who direct the manner in which the tool is used (R. 290; 903-904) these employees must have available extra parts necessary for replacement purposes, especially knives which wear out (R. 289). The cutters are made in varying sizes (R. 289) and so many cutters and parts are required that licensee maintains fully stocked stores in six or seven different states to meet these requirements (R. 290). The amount of the "charge as a rental," which the licensor undertook to prescribe, thus covered not only the privilege of use of the patented tool, but also the charge for these supplementary services. Obviously, it is no business of the patentee or licensor, licensing the use of the patented device, to concern itself with these supplementary services and employees. Likewise, it is not licensor's business, but that of the licensee, to determine the cost

and price to be charged for such services. Yet it is perfectly clear that the amount specified for the "charge as a rental" included both services and employees. The patent owner secured a fifty per cent (50%) royalty from the rental of the tool and fifty (50%) of the service charge. The situation disclosed is curiously analogous to the use of the patent to control the use or price or unpatented materials.

For these reasons it is submitted that the patent as here used could not lawfully extend to cover the fixing of the price for such use with attendant other services by the licensee, and apart from any patent justification, such price fixing arrangement was clearly an illegal restraint of trade. United States v. Socony-Vacuum Oil Comany, Inc. et al., 310 U.S. 150 (1940); 60 S.Ct. 811; United States v. Trenton Potteries Co. et al., 273 U.S. 392 (1927); 47 S.Ct. 377; Standard Sanitary Maufacturing Company v. United States, 226 U.S. 20 (1912).

III.

THE MISUSE OF THE PATENT BY APPELLEES BARS THEM FROM USING A COURT OF EQUITY TO ENFORCE THE PATENT GRANT.

In a long line of decisions, the Supreme Court has consistently held that the owner of a patent may not use the leverage of his patent contrary to public interest and in restraint of trade.

In Motion Picture Patents Co. v. Universal Film

Mfg. Co. (1917), 243 U.S. 502, 37 S.Ct. 416, it was held that the control of the sale of unpatented supplies was not within a patentee's domain and therefore an unwarranted restraint of competition.

Later decisions by the Court, such as Carbice Corporation of America v. American Patents Development Corporation, 283 U.S. 27, 51 S.Ct. 334; Leitch Mfg. Co. v. Barber Co., Inc., 302 U.S. 458, 58 S.Ct. 288, and Ethyl Gasoline Corporation v. United States, 309 U.S. 436, 60 S.Ct. 618, strengthens that doctrine.

The Morton Salt Case

Not until January 15, 1942, when Morton Salt Co. v. G. S. Suppiger & Co., 314 U.S. 488, 62 S.Ct. 402, was decided did the Supreme Court hold that irrespective of the Anti-Monopoly laws, a patent owner could not maintain an infringement suit against anyone if it appeared that the patent right was being asserted contrary to the public interest. The equitable defense of "unclean hands" was invoked and Mr. Chief Justice Stone said:

"The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adopted by the Constitution and laws of the United States, 'to promote the Progess of Science and Useful Arts, by securing for limited Times to . . . Inventors the exclusive Right . . . ' to their 'new and useful' inventions. United States Constitution, Art. 1, §8, cl. 8; 35 U.S.C. §31, 35 U.S.C.A. §31. But the public policy which includes inventions within the granted monopoly excludes from it all

that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.

"It is a principle of general application that courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest. (Page 492) . . . It is the adverse effect upon the public interest of a successful infringement suit in conjunction with the patentee's course of conduct which disqualifies him to maintan the suit, regardless of whether the particular defendant has suffered from the misuse of the patent. (P. 494) . . .

"It is unnecessary to decide whether respondent has violated the Clayton Act, for we conclude that in any event the maintenance of the present suit to restrain petitioner's manufacture or sale of the alleged infringing machines is contrary to public policy and that the district court rightly dismissed the complaint for want of equity." (P. 494).

The Univis Lens and Masonite Cases

Four months after the Morton Salt case, the Supreme Court decided United States v. Univis Lens Co., 316 U.S. 241, 62 S.Ct. 1088 and United States v. Masonite Corporation, 316 U.S. 265, 62 S.Ct. 1070. The Univis Lens case was an action against a patent owner for violation of the Sherman Anti-Trust

Act by reason of an objectionable licensing system established under patents. In writing the opinion Mr. Chief Justice Stone said:

"In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant (Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 62 S.Ct. 402, 86 L. Ed. 363), the particular form or method by which the monopoly is sought to be extended is immaterial."

The Masonite case related to a manufacturer of a patented article who entered into price-fixing agency agreements in violation of the Anti-Trust Act. In the opinion, [1119] Mr. Justice Black held that arrangements by which a patent is utilized are subject to the general law, saying:

". . . In applying that rule this Court has quite consistently refused to allow the form into which the parties chose to cast the transaction to govern."

The statement of principle in these two cases covers the situation here.

The exact manner in which the patent monopoly is extended is unimportant. In earlier decisions of the Supreme Court, the abuse usually took the form of forcing on customers a non-patented article to be used in connection with the patented article Carbice Corporation of America v. American Patents Dev. Corpn., 283 U.S. 27, 51 S.Ct. 334, and International Business Machines Corpn. v. United States, 298 U.S. 131, 56 S.Ct. 701, were typical. Not only is a patentee under those circumstances

open to attack by the public authorities, but in view of the Morton Salt case, he is even precluded from enforcing his rights as patentee, against an alleged infringer, so long as he is making improper use of the patent. "The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy," says the Court in the Morton Salt case at page 494 of the report.

In the later Univis Lens and Masonite cases, supra, it was held that the particular form or method of extending the monopoly is immaterial and it is now an established doctrine that any system of doing business by a patent owner, whereby he extends the monopoly beyond the [1120] patent grant, is not only unlawful, but the Courts will not lend assistance in enjoining infringement of that patent, so long as such manner of doing business continues.

Where the patent owner, as here, attaches to its license agreement any terms or conditions whereby the licensee is obliged not to do somthing which it would have a free right to do, but for the license, it is evident that the restraint on the licensee is outside the patent monopoly and results from the agreement.

The Mercoid Case

Only recently the Supreme Court in two cases, Mercoid Corporation v. Mid-Continental Inv. Co. et al., 320 U.S. 661; 64 S.Ct. 268, and Mercoid Cor-

poration v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680; 64 S.Ct. 278 (1944), reiterated the doctrine that a patentee "may not obtain from a court of equity any decree which directly or indirectly helps it to subvert the public policy which underlies the grant of its patent" (64 S.Ct. 280), citing the Morton Salt case and B. B. Chemical Co. v. Ellis, supra. "It would aid in the consummation of a conspiracy to expand a patent beyond its legitimate scope" (64 S.Ct. 273), and "The method by which the monopoly is sought to be extended is immaterial," said the Court (64 S.Ct. 271), citing the Univis Lens case, supra. As succinctly stated in Mercoid Corporation v. Mid-Continent Investment Co., 320 U.S. 661, 669; 64 S.Ct. 268:

"It is sufficient to say that in whatever posture the issue may be tendered courts of equity will withhold relief where the patentee and those claiming under him are using the patent privilege contrary to the public interest." [1121]

The Mercoid cases also involved improper licensing practices between a patent owner and an exclusive licensee, to which the Supreme Court said:

"The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use."

If the single exclusive license agreement to make, use and sell in the Mercoid cases was objectionable because the royalty was based upon an unpatented

part, then the license agreement in the present suit is equally objectionable.

Inter State and Sola Cases

The opinion of the Supreme Court in Inter State Circuit v. United States, 306 U.S. 208, 59 S.Ct. 467, 476, lays down the principle that it is not within the monopolistic rights of a copyright owner to require his licensee to observe minimum admission prices on the showing of a copyrighted motion picture film and to abstain from presenting other pictures with the licensed film. The Court said:

"A contract between a copyright owner and one who has no copyright, restraining the competitive distribution of the copyrighted articles in the open market in order to protect the latter from the competition, can no more be valid than a like agreement between two copyright owners or patentees."

The present situation is surprisingly close in analogy to that case and it is interesting to note that the Court in the copyright case relied on the doctrine announced in earlier patent decisions. [1122]

In Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173, 63 S.Ct. 172, the Court condemned a price-fixing provision in a patent license agreement.

IV.

PLAINTIFFS ARE NOT ENTITLED TO AN ACCOUNTING AND PAYMENT OF PROFITS AND DAMAGES, EVEN THOUGH THIS COURT HAS HELD THE PATENT VALID AND INFRINGED.

This precise point was decided in National Lockwasher Co. v. George K. Garrett, 137 F. (2d) 255, previously referred to at length herein. That was an infringement suit in which the Circuit Court of Appeals for the Third Circuit held the patent valid and infringed, directing an accounting of profits and damages, thereby affirming the interlocutory judgment or decree (98 F. (2d) 643). Thereupon the case was sent back to the District Court for such accounting and the Special Master rendered a report awarding the sum of Seventeen Thousand Nine Hundred Ninety-four and 25/100 ($17,994.25) Dollars to plaintiff, which was affirmed by the District Court. Defendant then appealed for the second time from the final judgment rendered upon the Master's Report, raising the one point, apparently not argued on the first appeal, that the plaintiff, as patentee, by reason of an illegal license agreement, had so misused the patent in suit that no relief whatever should be granted by a Court of Equity. Accordingly, five years after the interlocutory judgment and decree was affirmed, holding the patent valid and infringed, the same Court remanded the case to the District Court with directions to dismiss the complaint. [1123]

It would be onerous for appellant here to go all through an accounting and then have this Court find the license agreement illegal, which would render the entire accounting futile.

V.

PRESENT MOTION TIMELY BECAUSE ONLY INTERLOCUTORY JUDGMENTS ENTERED AND APPELLATE COURT NOT PRECLUDED FROM EXAMINING ANY EVIDENCE WHICH MAY AFFECT ITS OWN DECREE.

Interlocutory Judgments and Decrees

The appeal here was taken from the entry of two interlocutory judgments holding the patent valid and infringed. Only an accounting of profits and damages remains, from which a second appeal, as in the National Lockwasher case, may be taken to this Court.

In Hazel-Atlas Glass Co. v. Hartford Empire Co., 322 U.S. 238, 64 S.Ct. 997, the Supreme Court recently considered a similar situation to that here presented, where one of the questions was whether, in order to alter or set aside a judgment, it was necessary to return the suit to the District Court with permission to file a bill of review. In holding this lengthy procedure was unnecessary, the Court said:

"Nothing in reason or precedent requires such a cumbersome and dilatory procedure. Indeed the

whole history of equitable procedure, with the traditional flexiblity which has enabled the courts to grant all the relief against judgments which the equities require, argues against it. We hold, therefore, that the Circuit Court on the record here presented had both [1124] the duty and power to vacate its own judgment and to give the District Court appropriate directions."

The general power of a Court to modify its own judgment or decree is undeniable and, in respect to an interlocutory decree, extends beyond the term in which the decree was entered.

Public Interest Requires Examination of All Defenses

In a patent suit the public interest requires the examination of all defenses by an appellate court, whether argued in the court below or not. Furthermore, the question of whether courts shall withhold their aid when a patent owner is extending his patent monopoly, contrary to public interest and in restraint of trade, is one of law and not fact.

This Court, in Marchus v. Druge, 136 F. (2d) 602, 605, speaking through Judge Stephens, adopted the rule "that an appellate court is not restricted to the questions decided below, but may consider all material matters in issue," citing cases.

In Morton Salt Co. v. G. S. Suppiger & Co., previously cited, the District Judge granted defendant's motion for a summary judgment, 31 F. Supp. 876, and the Circuit Court of Appeals re-

versed, 117 F. (2d) 968, holding that the lower court erroneously gave summary judgment "without an inquiry into the facts." The Supreme Court, however, reversed the appellate court and affirmed the lower court, holding that the public interest was paramount, and if the record anywhere disclosed the monopolistic extent of plaintiff's contract, that was sufficient for [1125] a decision on the merits, without further inquiry into the facts.

That the misuse of a patent involves the public interest was decided in Mercoid Corp. v. Mid-Continent Co., 320 U.S. 661, 665, 64 S.Ct. 268, from which we quote the following:

"It is the public interest which is dominant in the patent system (citing cases). It is the protection of the public in a system of free enterprise which . . . denies to the patentee after issuance the power to use it in such a way as to acquire a monopoly which is not plainly within the terms of the grant."

The public interest in patent litigation means the interest of others than the parties in suit. That being so, the general rule under which appellate courts confine themselves to the issues raised below has been relaxed in patent litigation and if there is any evidence "whether or not called to the attention of the court below"[1] sustaining a defendant's contentions, such evidence may be examined by this Court in deciding the issue.

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[1]Marconi Wireless Telegraph Co. v. United States, 320 U.S., 1, 63 S.Ct. 1393, 1413.

Said the Supreme Court in Beasley v. Texas & Pacific Ry. Co., 191 U.S. 492, 498:

". . . if it appears that an injunction would be against public policy, the Court properly may refuse to be made an instrument to such a result, whatever the pleadings. . . . But the very meaning of public policy is the interest of others than the parties and that interest is not to be at the mercy of the defendant alone." [1126]

Here the license agreement and testimony in respect thereto are undisputed and misuse of the patent contrary to the public interest is clearly supported by the record.

"Unclean Hands" Defense

In the present suit, defendant in his answer pleaded the equitable "unclean hands" maxim and alleged that plaintiffs are "estopped from enforcing any right of action against defendant" (Answer R. 78). The basis for the present motion, therefore, appears in the original answer as filed.

But the defense of "unclean hands" need not be pleaded in order to be considered by a Court. Wherever the evidence discloses "unclean hands," the Court will, of its own motion, apply that maxim of equity in the interest of due administration of justice and such defense cannot be obviated or waived by any system of pleading or even by the express stipulation of the parties (Ford v. Caspers, 42 F. Supp. 994, affirmed, 128 F. (2d) 884, C.C.A. 7). The "unclean hands" maxim may come to the

attention of the Court in any way, whereupon the Court will act sua sponte (American Ins. Co. v. Lucas, 38 F. Supp. 896; 38 F. Supp. 926; affirmed 129 F. (2d) 143).

The "unclean hands" defense is primarily one of public interest (Bell & Howell v. Bliss, 262 Fed. 131 and General Electric v. Hygrade Sylvania, 45 F. Supp. 714), and is sufficient to deny to a patentee any relief against an alleged infringer. In General Theatres v. Metro-Goldwin-Mayer, 9 F Supp. 546, the Court said:

"The unconscionable character of a transaction need not be pleaded. Whenever it is disclosed the [1127] court will, of its own motion, apply the maxim at any stage of the proceedings."

The Morton Salt case, previously cited, was decided on the "unclean hands defense." The opinion in Vitamin Technologists, Inc. v. Wisconsin Alumni Research Foundation, decided by this Court on November 24, 1944 (63 U.S.P.Q. 262), from which we will quote under the next heading, discusses misuse of the patent, though the answer merely raised the general defense of "unclean hands" without specially pleading patent misuse in certain license agreements.

If appellees have used their patent in a manner contrary to public policy, as we contend, they undoubtedly come into a Court of Equity with "unclean hands" and this Court, notwithstanding the prior decision herein of validity and infringement,

is fully justified in staying the accounting and denying any further relief to appellees.

VI.

THE RECENT OPINION OF THIS COURT IN THE VITAMIN CASE IS DIRECTLY IN POINT AND FULLY SUPPORTS OUR ARGUMENT.

Only recently this Court, in Vitamin Technologists, Inc. v. Wisconsin Alumni, ... F. (2d) ....., 63 U.S.P.Q. 262, decided November 24, 1944, discussed at length misuse of the patent in a certain license agreement, though the specific point regarding public health, in the language of the Court, was "not argued." While misuse of the patent was not the basis of this Court's decision, yet consideration [1128] of the public policy involved was deemed important, and grounded upon the defense of "unclean hands." From the opinion we quote as follows:

"The Court also notes, sua sponte, as a tribunal concerned that equitable processes not to be used contra to the public interest, a matter in which the court is not 'at the mercy' of the parties (citing Beasley v. Texas & Pacific Ry Co., 191 U.S. 492, 498), . . .

"This raises the question, not argued, whether the effect on the public health of refusing to the uses of oleomargarine, the butter of the poor, the right to have such a food irradiated by the patented process is against the public interest. . . .

"Suppression of the use of the property in a patent has often been held the right of the holder of the patent monopoly, but the question has not been raised in connection with the public interest in restoring the health of the afflicted (citing Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405). . . .

"In the last decade, in the many cases cited above and in others, the relief of a Court of Equity has been denied because of the conduct of the patentee with reference to his monopoly property, against the public interest. . . .

"While recognizing the duty of the court, sua sponte, to protect the public interest, regardless of the contention of the parties, this also falls within the functions of the Attorney General." (Citing U. S. v. Masonite, 316 U.S. 265).[1] [1129]

The view of this Court is in harmony with Nachman Spring-Filled Corporation v. Kay Mfg. Co., 139 F. (2d) 781, 783, where the Circuit Court of Appeals for the Second Circuit, in a patent infringement suit, considered a restraint of trade and said:

"Defendant, in its brief on appeal, argues that, if the patent is invalid, the agreement is void as in restraint of trade, and that therefore we must inquire into the validity of the patent. This contention was not made in the court below; but we do not reject it on that account (citing Muncie Gear Co. v.

[1]The Solicitor General in the present suit filed an amicus curiae brief in the Supreme Court.

Outboard Co., 315 U.S. 759, 62 S.Ct. 865) . . . (since) an upper court should consider important defenses in such litigation even though not raised in the court below."

A footnote to that portion of the opinion (page 783) contains the following:

"Also pertinent are cases holding that a court should sua sponte raise the question of the illegality of an agreement where the illegality is serious (especially where an important public interest is involved), and that the defense of illegality cannot ordinarily be waived." (Citing cases.)

Since this Court has recognized its duty to protect the public interest of its own motion, as in the Vitamin case, without a specific pleading that patent suppression affected the public health, that duty is equally apparent in the present case where appellees have misused the patent by extending the monopoly obviously against public policy, in restraint of trade and even in violation of the Anti-Trust laws. [1130]

VII.

THE MORTON SALT CASE WAS DECIDED BY THE SUPREME COURT AFTER THE INTERLOCUTORY JUDGMENTS WERE ENTERED HEREIN.

In the Morton Salt case, previously referred to herein and decided on January 5, 1942, the Supreme Court for the first time held squarely that a patent owner could not maintain an infringement suit

against anyone, even an alleged direct infringer, if it appeared that the patent right had been used contrary to the public interest. That opinion was rendered after entry of the Interlocutory Judgments herein and after filing the Assignment of Errors Relied on in this Court (R. 122, 738). Hence, there was no statute or Court opinion in existence, when this suit was tried in the District Court, which supported a special defense of patent misuse herein. That is the reason why such defense was "not properly raised, litigated or passed upon below."

VIII.

IN THE ALTERNATIVE, THIS COURT MAY GRANT DEFENDANT PERMISSION TO APPLY TO THE DISTRICT COURT TO STAY THE ACCOUNTING, DENY PROFITS AND DAMAGES AND TAKE TESTIMONY IF DEEMED NECESSARY.

In the alternative, defendant asks this Court for permission to apply to the District Court, to stay the accounting, deny recovery of profits and damages for alleged patent infringement, take further testimony, or for such other and different relief as may seem proper. [1131]

Permission of this Court to apply to the District Court, under such circumstances, is a well recognized equitable procedure.

In Central California Canneries Co. v. Dunkley Co., 282 Fed. 406 (C.C.A. 9th), this Court granted leave to appellant, after affirmance of an interlocu-

tory decree holding a patent valid and infringed, to file a petition for rehearing in the trial court because of newly discovered evidence. The interlocutory decree was affirmed on October 1, 1917 (247 Fed. 790), and a petition for rehearing and petition for writ of certiorari were denied. Nearly five years after the interlocutory decree had been affirmed, but before the accounting (7 F. (2d) 972), this Court granted appellant's motion for permission to apply to the District Court.

Rown v. Brake Testing Equipment Corp., 50 F. (2d) 380 (C.C.A. 9th), was another opinion by this Court in which this method of procedure was held proper.

Other cases in point are:

Southard v. Russell, 16 How. 547;

In re Potts, 166 U.S. 263; 17 S.Ct. 520;

National Brake & Electric Co. v. Christensen, 254 U.S. 425; 41 S.Ct. 154;

Simmons v. Grier Bros., 258 U.S. 82; 42 S.Ct. 196;

Watson v. Stevens, 52 Fed. 31;

Board of Councilmen v. Bank, 120 Fed. 165;

In re Gamewell Fire Alarm, 73 Fed. 908;

O'Brien's Manual, pages 245-247. [1132]

In Seymour v. White County, 92 Fed. 115, the Circuit Court of Appeals for the Seventh Circuit, after decision affirming a judgment of the lower

court, on petition for leave to file in the lower court a bill in the nature of a bill of review, without consideration of the merits, said:

"it is deemed the better practice; unless for special reasons to the contrary, to grant the petition as of course."

If, therefore, this Court is of the opinion that the District Court, instead of the Circuit Court of Appeals, should determine whether the license agreement contains restrictive covenants which deny plaintiffs the right to recover profits and damages, the alternative motion is broad enough to include that procedure.

Respectfully submitted,
R. WELTON WHANN,
A. W. BOYKEN,
ROBERT M. McMANIGAL,
Attorneys for Appellant.

Dated: January 25, 1945.

(Appendix Folows) [1133]

APPENDIX

PLAINTIFF'S EXHIBIT No. 7

License Agreement

This Agreement, made and entered into this 18th day of October, 1923, by and between Kammerer Corporation, a corporation organized and existing under and by virtue of the laws of the State of California, with its principal place of business at

Santa Fe Springs, County of Los Angeles, State of California, hereinafter referred to as the Licensor, and L. F. Baash Perforating Company, a corporation, organized and existing under and by virtue of the laws of the State of California, with its principal place of business at Brea, County of Orange, State of California, hereinafter referred to as the Licensee:

Witnesseth:

That, Whereas, the Licensor is the sole owner of Letters Patent No. 1,277,660,[1] covering Tools for Cutting and Removing Pipe From Wells, and of that certain application for Letters Patent of the United States, Serial No. 652,511, covering Tools for Cutting and Removing Pipe From Wells, which said application was filed on the 19th day of July, 1923;[2] and

Whereas, the Licensor has and does hereby warrant that it is the sole owner of the aforesaid inventions and all rights thereto; and [1134]

Whereas, the Licensee is desirous of obtaining a license to and for the said inventions and any Letters Patent which may be granted on said application to the Licensor;

Now, Therefore, for and in consideration of their respective covenants and agreements hereinafter

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[1]Probably misprint in record, as correct number of Kemmerer Patent is 1,277,600.

[2]This is the application for the Reilly and Stone Patent in suit.

contained, and of the full and faithful performance of each and every thereof, the parties hereto have and do hereby mutually agree as follows:

1. The Licensor hereby grants to the Licensee the exclusive right and license to manufacture and use, but not to sell, devices embodying the aforesaid inventions under any Letter Patent now granted or which may hereafter be granted on any applications now pending or any patents hereafter obtained on improvements on the device or devices above mentioned, throughout the United States of America and the territories thereof, said license to continue for the full term of any Letters Patent granted for said inventions or improvements thereon.

2. The Licensee covenants and agrees during the term of this license to pay the Licensor hereunder upon all devices embodying the aforesaid inventions, a royalty of fifty per cent (50%) of the gross earnings accruing by the use of said devices by the Licensee.

3. The Licensee covenants and agrees during the term of this license to charge as a rental for the use of said device or devices the sum of One Hundred and Ninety Dollars ($190.00) per cut made by said device or devices.

4. The Licensee agrees to keep true and accurate books of account showing in detail the number of devices embodying the aforesaid invention manufactured by the [1135] Licensee, together with the dates of the use thereof and the names of the

parties to whom the same were rented or upon whose property the same were used, which books of account shall be open at all usual business hours for the inspection of the Licensor or its duly authorized agents. The Licensee further agrees to render to the Licensor on or before the fifteenth day of each and every calendar month during the term of this license, a true and correct statement in writing, setting forth the quantity of said devices manufactured by the Licensee during the preceding calendar month, together with a statement showing the dates of the use or rental thereof and the number of cuts made and the parties for whom the device or devices were used during the preceding calendar month.

5. The Licensee covenants and agrees to pay to the Licensor at its office at Santa Fe Springs, Los Angeles County, California, the royalties on the cuts reported in the statements hereinabove provided within thirty-six days after the statements are rendered.

6. It is hereby mutually covenanted and agreed by and between the parties hereto that any accounts of business done under this agreement by the Licensee, which are not paid within six (6) months from the time the statements of such business are rendered to the Licensor as hereinbefore provided, shall be considered bad accounts and any royalties which may have been paid on such business shall be deducted from the royalty account of the Licensor.

It is further agreed that at the time of making any such deduction the Licensor shall have the right

to take over the collection of such account or accounts by so notifying [1136] the Licensee and that for the purpose of collection the Licensor may use the Licensee's name and that for every such account collected by the Licensor, the Licensor may retain in addition to its royalty, all costs of collection.

It is further understood and agreed that whenever the Licensor has refunded the royalty or any non-collectible account and the Licensee thereafter makes collection of said account, that the Licensee shall repay the royalty theretofore refunded.

It is further understood and agreed that the Licensee will cooperate with the Licensor by furnishing the necessary evidence to prove the account on such claims as the Licensor undertakes to collect pursuant to this agreement.

7. The Licensee covenants and agrees that in the manufacture of devices under this license agreement it will stamp on all such devices so manufactured the word "Patented", together with the date of said patent or patents.

8. The Licensor agrees to diligently prosecute the aforesaid application for Letters Patent, Serial No. 652,511, and procure Letters Patent covering said invention, if possible, at the earliest date, and the Licensor agrees to indemnify and save harmless the Licensee against any and all liability, damage, loss or injury adjudged or sustained by reason of any claim or suit that said device constitutes an

infringement upon any Letters Patent heretofore or hereafter granted; provided, however, that in case suit is brought against the Licensee, the Licensor [1137] shall be given notice thereof and shall have opportunity to intervene and defend said claim or suit.

9. The Licensee hereby covenants and agrees that the Licensor shall have, and it is hereby given, a first lien on all devices manufactured under this agreement as and for security for the payment to the Licensor of all unpaid royalties which may accrue during the term of this agreement.

10. It is hereby mutually covenanted and agreed by and between the parties hereto that should the Licensee become bankrupt or be thrown into the hands of a receiver or receivers, then and in that event the Licensor shall have the option to purchase all of the devices manufactured by the Licensee under the terms of this agreement at the agreed price of three hundred ($300.00) Dollars, for each and every such device, and in payment for such devices the Licensor shall deduct from the purchase price the amount of its lien or liens for unpaid royalties and pay the remainder, if any there be, to the Licensee's trustee in bankruptcy or reciver or receivers.

11. The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or vent any device which will be in competition with the device or devices covered by this license agreement.

12. The Licensor covenants and agrees that during the term of this agreement, not to manufacture, sell, rent, license, use or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement. [1138]

13. It is mutually covenanted and agreed that this license shall be assignable by the Licensee only upon the written consent of the Licensor, its successors or assigns.

14. It is further covenanted and agreed that the Licensee shall manufacture and use the required number of devices necessary to take care of the demand for said devices amongst the operators in the oil-fields of the United States of America. And in the event the Licensee shall fail or neglect to furnish the devices necessary to take care of the demand of the oil operators in any or all of the oil-fields of the United States of America, the Licensor may serve notice on the said Licensee to manufacture and furnish devices to the operators of any or of all of the oil-fields of the United States and if within one hundred twenty (120) days after such notice has been served upon the Licensee; the Licensee still fails or neglects to furnish devices in any or all of the oil-fields of the United States where there is demand therefor, then and in that event, the Licensor may manufacture and use, or license others to manufacture and use, the devices covered by this license agreement, in such oil-fields

where the Licensee shall have failed to supply the demand for such devices, provided, however, that nothing in this paragraph contained shall give the Licensor or its licensee or licensees the permission to alter the prices fixed by this license agreement for the use of the devices covered hereby; and provided further that nothing herein contained shall require the Licensee to enter more than one oil-field in each six month period of this agreement.

15. It is further covenanted and agreed that the Licensor shall have a right and option to cancel and terminate this agreement upon written notice to the Licensee [1139] upon a breach of the terms of this agreement by the Licensee, which notice shall specify the breach and shall give the Licensee a right and option to remedy the breach within thirty (30) days after said notice. In the event that this license agreement shall be terminated in accordance with this paragraph when the said Licensee agrees to pay all royalties on cuts made prior to the date upon which this agreement becomes terminated and agrees to sell and deliver to the Licensor all the devices in existence at such time at the agreed price of three hundred ($300.00) Dollars per device.

In Witness Whereof, the Licensor has caused this agreement to be executed by its President and Secretary, duly authorized, and has caused its corporate seal to be affixed, and the Licensee has caused this agreement to be executed by its President and Secretary, duly authorized, and has caused

its corporate seal to be affixed, all on the day and year first above written.

[Seal] KAMMERER CORPORATION,
By GEO. KAMMERER,
President.

Attest:

BURDENA V. FITZGERALD,
Assistant Secretary.

[Seal] L. F. BAASH PERFORATING COMPANY,
By L. F. BAASH,
President.

Attest:

J. B. REILLY,
Secretary.

[Endorsed]: Pltff. Exhibit No. 7. Filed May 8, 1941.

[Endorsed]: Filed Feb. 12, 1945, Paul P. O'Brien, Clerk. [1140]

[Title of Circuit Court of Appeals and Cause.]

MEMORANDUM FOR APPELLEES OPPOSING APPELLANT'S MOTION FOR MODIFICATION OF THIS COURT'S DECREE AND/OR FOR PERMISSION TO APPLY TO THE DISTRICT COURT FOR SUCH MODFIFICATION

The decree of this Court affirming the judgments

of the District Court was entered October 18, 1943. A petition for rehearing was denied March 1, 1944. An order allowing certiorari was granted on June 5, 1944. By a per curiam order dated January 2, 1945, the Supreme Court dismissed the writ (.... US ...., 89 L ed 278), and the mandate remands the case to this Court without direction. By the instant motion, served February 13, 1945, appellant asks this Court to modify the decree below by eliminating Paragraphs 6 and 7 providing for the recovery by appellees of profits and damages arising out of the infringement of the patent in suit, or for permission to apply to the District Court for such [1141] modification. The motion is based on the contention that the license agreement between appellees contains provisions alleged to be in restraint of trade and therefore a misuse of the patent. The motion is opposed upon two grounds, (a) that the defense upon which appellant now seeks to rely has been waived and is no longer available to appellant, and (b) that there is no merit in appellant's assertion that the covenants of the license agreement upon which appellant relies involved any illegal restrain of trade or any misuse of the patent in suit.

I.

THE DEFENSE UPON WHICH APPELLANT NOW SEEKS TO RELY HAS BEEN WAIVED AND IS NO LONGER AVAILABLE TO APPELLANT

The license agreement between appellees (R. III-

854) was offered in evidence by appellees at the trial of this case to show under what patents royalties were paid by appellee Baash-Ross Tool Company to appellee Kammerer Corporation (R. I-179). No contention was made in the District Court that any of the provisions of the license agreement were in restraint of trade or constituted any misuse of the patent in suit. The findings of fact and conclusions of law entered by the trial court (R. I-108-118) contain no findings or conclusions upon the subject and none were requested. The statement under Rule 19 of this Court of the points on which appellant intended to rely on appeal assigned no error with reference thereto (R. II-732-737) and the defense was not urged to this Court in appellant's brief, at the oral argument before this Court, nor upon the petition for rehearing. The purported defense was first raised in this case by appellant in his petition for certiorari. In its per curiam order dismissing the writ the Supreme Court says:

"On oral argument and submission of the cause it appears that although petitioner by its amended answer alleged generally that respondents 'do not come into . . . court with clean hands,' the answer made no mention of the restrictions contained in the license agreement. The District Court made no findings of fact or law with respect to them. On appeal to the Circuit Court of Appeals petitioner assigned no error with reference to them and the Circuit Court of Appeals did not consider them saying: 'We affirm the judgments of the District

Court, considering here only the appellant's claim of error." 138 F. 2d 482.

"Thus the only question for which we granted certiorari is one not properly raised, litigated or passed upon below. Duignan v. United States, 274 US 195, 200, 71 L ed 996, 1000, 47 S Ct 566; Burnet v. Commonwealth Improv. Co. 287 US 415, 418, 77 L ed 399, 402, 53 S Ct 198; Zellerbach Paper Co. v. Helvering, 293 US 172, 182, 79 L ed 264, 270, 55 S Ct 127; United States v. Classic, 313 US 299, 329, 85 L ed 1368, 1385, 61 S Ct 1031. The grounds asserted for the allowance of certiorari are inadequately supported by the record, and the writ is therefore dismissed."

The decisions cited by the Supreme Court in support of its per curiam order are on the point that only in exceptional cases will the Supreme Court pass upon any question not pressed or passed upon below. The rule is well established in the Supreme Court that only in exceptional cases or under particular circumstances which will prompt a reviewing or appellate court to consider such a question, where injustice might otherwise result, will any question be passed upon which was neither pressed nor passed upon by the court below. Hormel v. Helvering, 312 US 552, 556, 85 L ed 1037, 1041. Other than in such an exceptional case, any defense neither pressed nor passed upon by the court below is deemed waived.

The Rule in this Court is the same as the rule in the Supreme Court. Borchard et al. v. California

Bank et al., 107 F 2d 96; Johnstone v. Commissioner of Internal Revenue, 76 F 2d 55; Coopman et ux. v. Citizens State Bank of Omak et al., 85 F 2d 799; Ex parte Keizo Kamiyama, 44 F 2d 503. As said by Judge Garrecht in United States v. Todd et al., 70 F 2d 540, [1143]

"Appellate courts look with disfavor upon questions raised for the first time in such courts for the reason that the trial court is entitled to have the entire matter presented to it and to be given an opportunity to rule thereon and not be reversed for errors of which it was not aware."

In Research Products Co. v. Tretolite Co., 106 F 2d 530, this Court held that a defense of misuse of a patent was waived because not relied upon before the Special Master and not raised in the exceptions to the Special Master's report and could not be reinstated by a motion to reopen the case.

In dismissing the writ of certiorari in this case the Supreme Court has held that this is not an exceptional case nor a case involving particular circumstances which would prompt a reviewing court to consider the question now sought to be presented by appellant's motion. The argument that the defense involves a question of public policy was urged by appellant to the Supreme Court and rejected there. Although reiterated here, there is no reason why this argument should find greater favor in this Court than it did before the Supreme Court. No question of public policy remains in this case. The patent in suit has expired (R. III-746). The case

is not therefore one which involves the effect of an injunction upon the public as in the cases upon which appellant relies. The only question remaining is whether appellant is to account to appellees for his infringement of the patent in suit. In this question the public is not interested or concerned. That the Supreme Court considered this case to be removed from those exceptional cases in which the misuse of a patent is held to be a matter of public interest is implicit in the per curiam order of the Supreme Court, as follows:

"The patent expired on April 18, 1944, only damage for infringement is involved, * * *." [1144]

The defense now sought to be relied upon by appellant in his motion having been waived by appellant's failure to press or urge the defense in this or the court below, appellant should not now at this date be allowed to advance such defense. As said in Container Patents Corp. v. Stant et al., 143 F 2d 170, 172 (CCA 7), of a defense like unto that now urged by appellant:

"As to this defense it is sufficient to say that it was not presented to the court below and it cannot be presented here for the first time. New York Life Ins. Co. v. Calhoun, 8 Cir. 114 F. 2d 526, 543; Ramming Real Estate Co. v. United States, 8 Cir. 122 F. 2d 892; Hutchinson v. Fidelity Investment Association, 4 Cir., 106 F. 2d 431, 436, 133 A.L.R. 1061; Towle v. Pullen, 7 Cir., 238 F. 107, 111."

Compare Flexwood Co. v. Faussner & Co., 145 F

2d 528 at 537 (Footnote 8), where District Judge Barnes, after writing the opinion for the Circuit Court of Appeals for the Seventh Circuit, in determining and overruling such a defense on the merits, said:

"Since writing the above, the writer's attention has been called to the opinion of this court in Container Patents Corporation v. Stant, 143 F. 2d 170, 172, where a third, and undoubtedly the best, course was followed."

It is equally clear that this case should not be remanded to the District Court with permission to entertain the defense heretofore waived by appellant. The cases relied upon by appellant in support of his request for leave to the District Court are cases involving newly discovered evidence. Here appellant does not assert that there is any newly discovered evidence or any further evidence to be considered by the District Court. Appellant's contention that the decrees below are merely interlocutory and that therefore appellant may in any event raise this defense on the accounting is manifestly erroneous. It is well settled that the decrees below are final except for the taking of an accounting. Carson Investment Co. v. Anaconda Copper Mining Co., 26 F 2d 651 (CCA 9); In re Potts, 166 US 263, 41 L ed 994; Larkin Automotive Parts Co. v. Bassick Mfg. Co., 19 F 2d 944 (CCA 7). [1145] The defense relied upon here, if given the effect sought by appellant, would be a matter in bar of the action, and has no bearing on the fixing of the amount due

appellees. In Flexwood Co. v. Faussner & Co., supra, the Circuit Court of Appeals for the Seventh Circuit, in denying leave to permit the District Court to entertain a defense of alleged misuse of the patents there in suit, said:

"To do this, will, however, reward or place a premium on delay in the presentation of a defense. For this reason, we have decided against this course."

II.

THERE IS NO MERIT IN APPELLANT'S ASSERTION THAT THE COVENANTS OF THE LICENSE AGREEMENT UPON WHICH APPELLANT RELIES INVOLVED ANY ILLEGAL RESTRAINT OF TRADE OR ANY MISUSE OF THE PATENT IN SUIT

The argument advanced by appellant to this Court in support of appellant's contention that the covenants of the license agreement upon which appellant relies involved any illegal restraint of trade or any misuse of the patent in suit, is a duplication of the argument advanced to the Supreme Court in this case. In lieu of setting forth in this memorandum our argument in opposition to appellant's contentions, we are filing herewith copies of our printed brief before the Supreme Court containing our argument. In this way the Court will have before it our argument as considered by the Supreme Court. In dismissing the writ of certiorari in this case, it is obvious that the Supreme

Court did not consider that the covenants of the license agreement between appellees, complained of, embody any restraint of trade or misuse of the patent of a character which would warrant the Court relieving appellant of his failure to present his purported defense in the District Court or in this Court upon the hearing of this appeal. [1146]

In our brief before the Supreme Court we contended that none of the license covenants complained of by appellant involved any unlawful restraint of trade or misuse of the patent in suit. The assertion that the patent was misused depends upon the covenants in question being held to constitute an illegal restraint of trade. It is elementary that in determining whether or not the restraint imposed by a contract is unreasonable and therefore unlawful, it is necessary to take into account all the circumstances surrounding the contract, including the relationship of the parties and their relationship to the subject-matter and its relation to the general public. The circumstances under which the invention of the patent in suit was made and the relationship of the parties to the license agreement in the ownership of that invention at the time the invention was made, are set forth in our brief before the Supreme Court at pages 4 to 10. These reveal that the license agreement represents merely a normal and useful contract designed to promote the success of a common enterprise in the nature of a joint venture. The object of the parties in entering into the agreement was merely to protect their respective interests. There was a complete ab-

sence of any intention or purpose to monopolize or restrain trade. The agreement imposed no restriction whatever upon any member of the public who might desire to use the patented invention. In lieu of restraining competition, it may fairly be said that the agreement assured and promoted competition in this industry.

(a) At pages 13 to 20 of our brief before the Supreme Court we set forth our argument that the covenants between the parties to the license agreement not to compete with the Reilly and Stone patented tool were not in restraint of trade or illegal. There are many examples in the law of the principle that covenants not to compete are legal and may be upheld where justified by the relation between the parties and the relation of the parties to [1147] the subject-matter. The relation of the parties to the agreement here was such that the covenant not to compete between appellees, complained of by appellant in this case, merely bound the parties to a course of conduct corresponding to that required of the parties to a common enterprise and which if not expressed would be implied. Such covenants or agreements between partners or parties to a common enterprise are not in restraint of trade or illegal. As said by the Court in Kinsman v. Parkhurst, 18 How. 289, 15 L ed 385:

"Similar views are decisive against the objection that this was a contract in restraint of trade. It was certainly competent for two persons, being joint owners of Letters Patent, whether valid or

invalid, to enter into a co-partnership for the manufacture and sale of the patented machines, and to stipulate that one of them should alone conduct the business. This was a provision for the prosecution of the business in a particular mode, and not for its restraint. It is a very common and not an illegal stipulation in partnership articles, that neither partner shall carry on that business for which the partnership is formed, outside of the partnership and for his own account" (p. 293).

It is likewise well settled that the parties to an exclusive license agreement may covenant not to compete with the patented invention covered by the license agreement and that such a covnant is not in restraint of trade. Such a covenant is an assurance of competition, not a restraint, because it guards against the possibility of the exclusive licensee suppressing the patented invention.

At pages 18 to 19 of our brief before the Supreme Court we urged that the decision of the Circuit Court of Appeals for the Third Circuit in National Lockwasher Co. v. George K. Garrett Co., Inc., 137 F 2d 255, relied upon by appellant, may be distinguished from this case and is not in point. In that case the patent owner conditioned the grant of licenses to various manufacturers of spring washers upon the agreement of the manufacturers not to manufacture any other form of spring washer except those covered by the patent. The parties to those agreements were not related except as licensor and licensee. There was no common enterprise. The [1148] licensees were not exclusive licensees.

The purpose of the restriction as held by the Court was to suppress competition by unpatented spring washers, which the Court found to be available. There was an illegal plan committing all of the members of the industry except the defendant to a common restraint. This was done with the avowed objection of restraining trade and was held to be a misuse of the patent.[1]

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[1]We have examined the record and briefs in the Circuit Court of Appeals for the Third Circuit in that case. While the facts do not appear fully from the decision of the Circuit Court of Appeals for the Third Circuit, we quote the following from the brief for defendant-appellant before the Court of Appeals in that case:

"The Loutrel lock-washer which is the subject matter of the patent-in-suit has no superior competitive standing in relation to the other unpatented non-tangling lock-washers, and there was no such advantage flowing from or attributable to the Loutrel-patented feature which would sustain any proper royalty on its own merits. Recognizing this situation, plaintiff decided to realize on its patent by utilizing it to control the lock-washer industry both as to the type of washers to be made and the price at which they were to be sold. Licenses (147a-158a) were devised which contained covenants to exclude and suppress all unpatented, non-tangling lock-washers lacking the Loutrel-patented feature and also to fix the price of the Loutrel lock-washer itself. The license covenants are quoted below. There was in effect created a trade 'Association' under the guise of a patent-license, which was bound together by the licensing agreements and the common purpose of controlling and suppressing unpatented, non-tangling lock-washers and maintaining fixed prices and stifling free competition. This informal trade 'Association', comprising plaintiff and its licensees, comprehends virtually 100%

(b) At pages 20 to 23 of our brief before the Supreme Court we presented our argument that the grant of the license to manufacture and use but not to sell was not illegal. This is elementary patent law. Robinson on Patents, Vol. 2, Sec. 810. The patent in suit covers a fishing tool. It is not the custom in the oil industry to buy or sell fishing tools. In the ordinary drilling of a well, if everything goes as planned, there would be no need for such a tool at all; only in the case of a misfortune

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(59a) of all lack-washer manufacturers selling to the General Motors Corporation, excepting the defendant here and perhaps one other company supplying a very small part of that company's requirements, and the testimony on the original trial shows that not only did plaintiff and its licensees have a virtually 100% monopoly of split-ring lock-washers used by General Motors Corporation (which plaintiff and its licensees sold under the term 'Kantlink') but, at the time of the trial also 'The Ford Motor Car Company, the entire Chrysler interests, Packard, Reo; in fact, the entire motor car industry is using the Kantlink lock-washers and such large concerns as the Eureka Manufacturing Company and the Apex Electrical Company' were 'using the Kantlink construction exclusively' (53b) (with the exception of course of the non-tangling split ring lock-washer sold to the motor car industry by defendant). The use of these Loutrel-licensed lock-washers 'in the case of the lesser users was 100 per cent.' (52b).

"Since the unpatented, non-tangling lock-washers and the patented Loutrel lock-washers were commercially indistinguishable, it was a very clever plan to eliminate all other non-tangling lock-washers (which could not be subject to a price-control) and substitute therefor only the lock-washer which could be subject to a price control by means of the Loutrel patent."

is there a call for one. As a practical matter, as is well known, fishing tools are handled by service organizations who maintain a stock of fishing tools and a staff of experienced operators. In providing for appellee Baash-Ross Tool Company to so conduct the business, the license agreement best served the industry and in no manner injured or restrained the public. In fact the license agreement required the licensee to "manufacture and use the required number of devices necessary to take care of the demand for said devices amongst the operators in the oil fields of the United States of America" (R. III-858). The rule governing contracts in restraint of trade is not so strict as to interfere with ordinary business transactions which are unobjectionable and necessary.

(c) At pages 23 to 26 of our brief before the Supreme Court we set forth our argument that the setting of the price to be charged for running the Reilly and Stone tool was not illegal. The right of the patentee to fix the price of his licensee is established by the decision of the Supreme Court in United States v. General Electric Co., 272 US 476, 71 L ed 362. The parties to the license agreement in this case were not competitors. The licensor was purely a holding company organized to embrace the rights of the owners of both the prior Kammerer patent and of the Reilly and Stone patent in suit. The licensor never engaged in any business. The returns from the business were to be divided [1150] equally between the parties to the license agreement. Under such circumstances there is no reason

why either of the parties should have more or less to say as to what the prices charged should be than the other.

At pages 26 to 29 of our brief before the Supreme Court we presented our argument that there is nothing in the license agreement attempting to extend the scope of the patent monopoly or to bring this case within the decisions relied upon by appellant. The decisions of this Court cited by appellant that suit may not be maintained for infringement of a patent that has been misused or that has been used contrary to the public interest are not applicable here. Appellees have not misused the patent in suit to obtain a monpoly of any unpatented articles or materials and have not used the patent contrary to the public interest. Even if a covenant in the license agreement could be deemed to be in restraint of trade, which we submit is not true, the mere fact that the appellees may have engaged in restraint of trade is no defense to an action brought to enforce statutory or property rights. See the cases cited at page 29 of our brief before the Supreme Court and the recent decision of the Supreme Court in Hartford Empire Co. v. United States, decided January 8, 1945.

CONCLUSION

We submit that appellant's motion for a modification of this Court's decree and permission to apply to the District Court for such modification should be denied.

Respectfully submitted,
/s/ FREDERICK S. LYON,
/s/ LEONARD S. LYON,
Attorneys for Appellees.

[Endorsed]: Filed March 8, 1946. [1151]

[Title of Circuit Court of Appeals and Cause.]

APPELLANT'S REPLY TO APPELLEES' MEMORANDUM

I.

The Defense Upon Which Appellent Relies Has Not Been Waived

The per curiam order of the Supreme Court dismissing the writ has been misinterpreted by appellees. In effect, the order is a direction to appellant to return to the courts below and there raise the issue of patent misuse.

Amendments to conform to the evidence are liberally allowed under the Federal Rules of Civil Procedure. Under Rule 15(b) an issue may be raised "upon motion of any party at any time, even after judgment." But here no further amend-

ment is necessary, for the [1152] defense of "unclean hands" which is the basis of patent misuse, is in the record and fully supported by the evidence. That defense, however, has not specially been "passed on below." Hence this motion which directly tenders the issue.

Appellees have not been prejudiced by any alleged delay, since the patent has expired and only an accounting remains. Appellant is not here questioning this Court's conclusion of validity and infringement which have become final. Because of patent misuse the accounting should be stayed and the complaint dismissed as in the National Lockwasher case. This is an issue not previously before this Court and is one which has never been waived. Indeed, the misuse of a patent, involving the public interest, cannot be waived and a court may sua sponte raise that question at any time.

In the very recent patent case of Frank Adam Electric Co. vs. Westinghouse Electric & Mfg. Co. ..... F. (2d) ....., 64 U.S.P.Q. 147, decided Jan. 11, 1945, the Circuit Court of Appeals for the Eighth Circuit in considering the "unclean hands" defense, said:

"If a question is fundamental and determinative of a case a court will pass upon it, although not raised by the parties."

American Cutting Alloys vs. General Electric Co., 135 F. (2d) 502, (C.C.A. 2), also related to a patent, and the illegality of a covenant, the Court holding that:

"This issue was not presented below but that does not prevent its consideration on appeal since the facts which raise it are in the record. Although illegality is an affirmative defense, a plaintiff is not required to file a reply asserting illegality of an agreement pleaded in defense to the complaint."

In Research Products Co. vs. Tretblite Co., 106 F. (2d) 530, (C.A.A. 9), relied on by appellees, this court did not hold that the [1153] defense of patent misuse had been waived. On the contrary, the record was examined and this court basing its decision on the merits, said:

"We agree that the record does not show the essential facts necessary to the application of the rule preventing recovery for infringement because of an illegal use of the patent monopoly to create another distinct monopoly in an unpatented material."

The recent decision in Flexwood Co. vs. Fausser & Co., 145 F. (2d) 528, (C.C.A. 7), cited by appellees, fails to support their argument. In that case Judge Barnes mentions Container Patents Corporation vs. Stant, 143 F. (2d) 172, also cited by appellees, and decides the issue of patent misuse and unclean hands on the record before the court, saying:

"The alternative is to decide the question presented by defendant's motion in the record already made. This, we shall do, and, in so doing, we are not unmindful of the interest of the public in questions relating to the validity, infringement and lawful use of patents." (underlining ours).

That the judgment entered by the District Court herein is only interlocutory is apparent from the Supreme Court decision in Simmons Co. vs. Brier Bros. Co. 258 U. S. 82, relating to patent infringement. Such a decree, said the court, may be modified in view of a later court decision at any time, prior to the final decree.

II.

Reply to Appellees' Argument on the Merits

Appellees' argument to this Court on the merits is a duplicate of that advanced in the Supreme Court. In lieu of replying [1154] in detail herein, we are filing copies of our reply brief in the Supreme Court, which fully answers the assertion of "joint venture" and other falacious contentions made by appellees.

Respectfully submitted,

/s/ R. WELTON, WHANN,

/s/ A. W. BOYKEN,

/s/ ROBERT M. McMANIGAL,

Attorneys for Appellant.

United States Circuit Court of Appeals
for the Ninth Circuit

Excerpt from Proceedings of Tuesday, March 13, 1945.

Before: Denman, Mathews and Stephens, Circuit Judges.

[Title of Cause.]

ORDER SUBMITTING MOTION FOR MODIFICATION OF APPELLATE DECREE AND/OR FOR PERMISSION TO APPLY TO THE DISTRICT COURT

Ordered motion of appellant for modification of the decree of this Court and/or for permission to apply to the District Court presented by Mr. A. W. Boyken, counsel for appellant, and by Mr. Leonard Lyon, counsel for appellees, and submitted to the court for consideration and decision. [1156]

[Title of Circuit Court of Appeals and Cause.]

Upon Motion for Modification of Appellate Court Decree and/or for Permission to Apply to the District Court

Before: Denman, Mathews and Stephens, Circuit Judges.

OPINION

Per Curiam:

On this appeal we affirmed the judgments of the district court holding that patent No. 1,625,391,

owned by appellee Kammerer Corporation and of which appellee Baash-Ross Tool Company was sole licensee, had been infringed by appellant and awarding injunctions and ordering accountings of and payment by appellant to appellees of profits and damages with costs of suit.

Certiorari was sought from the Supreme Court on the ground that the patent was invalid and if valid not infringed, and on the further ground that the license agreement between the appellees was against the public interest and hence that all equitable relief should be denied appellees. Certiorari was denied, 322 U.S. 739. Later, upon a motion for rehearing, the writ was granted, 322 U.S. 766. On January 2, 1945, the Supreme Court dismissed the writ and remanded the case to this court, ... U.S. ..., 65 Sup. Ct. 297. In the interim the patent had expired.

In this court the appellant, admitting the finality of our judgment that the patent is valid and infringed by him, repeats his claim that the license agreement of appellees violates the public [1157] interest. He moved that the ordered accountings, damages and costs be denied appellees by this court; or, in the alternative, that permission be granted him to move in the district court below that such relief be denied appellees. The motion was argued on behalf of all the parties and submitted.

Without passing upon the merits of appellant's contention respecting the effect on the public interest of appellees' license agreement, and without altering our judgment affirming the judgments of the

district court as to the validity of the patent and its infringement it is ordered that the judgment of this court be otherwise amended to provide that the cause be remanded to the district court and that that court may entertain a motion or motions based upon such contention to modify or set aside its order or orders for such damages and accountings thereof, and take such action thereon as it may determine.

[Endorsed]: Opinion upon motion for modification of Appellant Court decree, etc.. Filed March 14, 1945. Paul P. O'Brien, Clerk. [1158].

United States Circuit Court of Appeals
for the Ninth Circuit

Excerpt from Proceedings of Wednesday, March 14, 1945

Before: Denman, Mathews and Stephens, Circuit Judges.

[Title of Cause.]

ORDER DIRECTING AMENDMENT OF DECREE OF THIS COURT

Pursuant to the Per Curiam order this day rendered and filed, It Is Ordered that the judgment of this Court, without altering its affirmative of the judgments of the District Court herein as to the validity of the patent and its infringement, be otherwise amended to provide that the cause be remandded to the District Court here and that

that court may entertain a motion or motions based upon the contention of the appellant that the license agreement between the appellees was against the public interest and hence that all equitable relief should be denied appellees to modify or set aside its order or orders for such damages and accountings thereof, and take such action thereon as it may determine. [1159]

United States Circuit Court of Appeals
for the Ninth Circuit

No. 9957

IRA J. McCULLOCH,

Appellant,

vs.

KAMMERER CORPORATION, et al.,

Appellee.

DECREE

Appeal from the District Court of the United States for the Southern District of California, Central Division. This Cause came on to be heard on the Transcript of Record from the District Court of the United States for the Southern District of California, Central Division, and was duly submitted:

On Consideration Whereof, it is now here ordered, adjudged, and decreed by this Court, that the judgments of the said District Court in this cause be,

and hereby are affirmed with costs in favor of the appellees and against the appellant. It Is Further Ordered, Adjudged, and Decreed by this Court, that the appellees recover against the appellant for their costs herein expended, and have execution therefor. It Is Further Ordered, Adjudged and Decreed by this Court that this cause be, and hereby is remanded to the said District Court, and that the said District Court may entertain a motion or motions, based upon the contention of the appellant that the license agreement of appellees violates the public interest, to modify or set aside its order or orders for such damages and accountings thereof, and take such action thereon as it may determine.

[Endorsed]: Filed and entered October 18, 1943. As Amended by order of March 14, 1945. Paul P. O'Brien, Clerk. [1160]

[Title of Circuit Court of Appeals and Cause.]

NOTICE OF HEARING OF MOTION

To Kammerer Corporation and Baash-Ross Tool Company, Appellees, and Lyon & Lyon, their Attorneys;

Please take notice that on Monday, June 3, 1946, at the hour of 10 a.m., or as soon thereafter as counsel may be heard, in the Post Office Building, 7th and Mission Streets, San Francisco, California, before the above entitled Court, appellant will bring on for hearing his hereto annexed Motion to Modify or Set Aside Decree, of this Court filed and entered

October 18, 1943, as amended by order of March 14, 1945, recall the Mandate issued to the District Court pursuant thereto, and Determine Patent Misuse.

R. WELTON WHANN,
A. W. BOYKEN,
ROBERT M. McMANIGAL,
Attorneys for Appellant.

Dated May 24, 1946.

[Endorsed]: Filed May 24, 1946. [1161]

[Title of Circuit Court of Appeals and Cause.]

MOTION TO MODIFY OR SET ASIDE DECREE, RECALL MANDATE AND DETERMINE PATENT MISUSE

Now comes appellant and moves this Court to modify or set aside its Decree filed and entered October 18, 1943 as amended by order of March 14, 1945, wherein the judgments of the District Court for the Southern District of California, Central Division were affirmed, recall the mandate issued to the District Court pursuant thereto, decide the question of patent misuse set forth in Appeal No. 11,122, and for such other relief as to this Court shall seem proper.

The grounds of this motion are that this Court, in its opinion filed March 14, 1945, intended to affirm the District Court only as to patent validity and infringement leaving open the question of patent misuse and right to accounting which question this Court intended that the District Court should

initially determine, meanwhile keeping the appeal open so this [1162] Court might review the decision of the District Court in that respect, and finally enter its decree on all defenses.

On the hearing appellant will rely on all the pleadings and papers on file in this Appeal and in Appeal No. 11,122 and the authorities hereto annexed.

R. WELTON WHANN,
A. W. BOYKEN,
ROBERT W. McMANIGAL,
Attorneys for Appellant.

Dated May 24, 1946. [1163]

POINTS AND AUTHORITIES IN SUPPORT OF MOTION

I.

The procedure which this Court apparently intended to follow as manifested in its opinion of March 14, 1945 (148 F. (2d) 525) was to hold the appeal open until the question of patent misuse could first be determined by the District Court. This procedure is similar to that followed by this Court in Time Trust Inc. vs. Securities & Exchange Commission, 130 F. (2d) 214 (CCA 9th) where this Court, without entering its decree, remanded the suit to the District Court to make additional findings of fact stating that the responsibility for decision on the facts lies with the trial court. In Time Trust Inc. vs. Securities & Exchange Commission, 142 F. (2d) 744, a later opinion of this

Court in the same case, the trial court's additional findings of fact were considered by this Court and a Decree finally entered.

II.

An inspection of the Decree of this Court dated October 18, 1943, as amended by order of March 14, 1945, indicates that the Decree, with exception of the last paragraph, was prepared by the Clerk of this Court on October 18, 1943, after the first opinion of this Court was filed (138 F. (2d) 482). Since the mandate was then stayed pending petition to the Supreme Court for a writ of certiorari, the Decree remained in the Clerk's office. After the second opinion of this Court (148 F. (2d) 525) on patent misuse, the Decree was probably amended on or about March 14, 1945, by adding the final paragraph remanding the cause to the District Court with permission to appellant to make a motion in the District Court on patent misuse.

In amending the Decree without altering the previously prepared portions, the Clerk did not reflect the intentions of this Court to hold the appeal open until the question of patent misuse had been initially determined in the lower court. Nor did [1164] it reflects the intention of this Court to merely affirm the lower court judgments in respect to validity and infringement only, but not the right to an accounting of profits and damages.

This error can and should be corrected and the proceedings conformed to this Court's intentions as indicated in its opinion on patent misuse (148 F. (2d) 525).

The failure of the Clerk to clearly set forth this Court's intentions is a clerical error which may be corrected at any time.

Zoline Federal Appellant Jurisdiction, Page 434; Hickman vs. Fort Scott, 141 U. S. 415; Gilmore vs. U. S., 131 F. (2d) 873; Reed vs. Howberg, 77 F. (2d) 227; New England Furniture and Carpet Company vs. Willcuts, 55 F. (2d) 983; United Zinc and Chemical Company v. Britt, 264 Fed. 785; Rule 65 Federal Rules of Civil Procedure.

In Gilmore vs. U. S., 131 F. (2d) 873, the Circuit Court of Appeals for the Eighth Circuit said as follows:

"In the case of courts of common law . . . the court at a subsequent term has power to correct inaccuracies in mere matters of form, or clerical errors, and, in civil cases, to rectify such mistakes of fact as were reviewable on writs of error coram nobis, or coram vobis, for which the proceeding by motion is the modern substitute. United States v. Mayer, 235 U. S. 55, 66, 67, 35 S. Ct. 16, 19, 59 L. Ed. 129. The rule that a judgment in a civil case cannot be vacated or modified after the term at which it was entered, has been changed by Federal Rules of Civil Procedure, rule 6(c), 28 U. S. C. A. following section 723c. Sprague v. Ticonic National Bank, 307 U. S. 161, 169, 170, 59 S. Ct. 777, 83 L. Ed. 1184."

In E. C. Shevlin Co. vs. United States, 146 F. (2d) 613, 615, this Court recently recognized the

power to correct errors by motion It was there stated:

"Appellee at the hearing of the appeal from the order setting aside the first judgment sought to explain this ex parte action of the court on the ground that there was a suspicion in the court's mind, undisclosed in the record, of fraud on the part of the successful litigant. If this penetration into the judicial mind be [1165] warranted, and its conclusions be correct, then the remedy after the term is in a motion or proceeding in the nature of coram nobis, (Pickett's Heirs vs. Legerwood, 7 Pet. 144, 147, 8 L. Ed. 638; United States v. Mayer, 235 U. S. 55, 69, 35 S. Ct. 16, 59 L. Ed. 129), or in a suit in equity to restrain the enforcement of the judgment or for return of moneys paid under it."

III.

Because of the public interest which is present in all patent litigation (authorities in our opening brief pgs. 29-34 in Appeal No. 11,122.), and in the interest of justice this Court should now consider the defense of patent misuse and review the opinion, findings of fact and conclusions of law of the District Court on patent misuse, which are clearly erroneous and not in accordance with the opinions of the Supreme Court of the United States (our opening brief pgs. 22-29 in Appeal No. 11,122), other Circuit Courts of Appeals (Pgs. 28-29, 39) and the recent opinion of this Court in Vitamin Technologists, Inc. vs. Wisconsin Alumni Research Foundation, 146 F. (2d) 941.

IV.

An accounting before a Master in a patent infringement suit is expensive and prolonged. If this Court does not now decide the question of patent misuse, years may pass before another appeal can be taken from the Final Judgment entered by the District Court (Bingham Pump Co. vs. Edwards, 118 F. (2d) 338). As expressed at the hearing in this Court on May 17, 1946 in Appeal No. 11,122, all parties to this litigation are desirous of settling the question of patent misuse now. It is inconceivable that this litigation should become so ensnarled in a procedural problem that this Court cannot determine the question of patent misuse involving the public interest at the present time. In Bruckman vs. Hollzer, 152 F. (2d) 730, 733 (CCA 9th), Judge Denman writing the opinion of this Court said: [1166]

"We are not in accord with the extreme judicial conservatism which instinctively clings to outmoded intricate processes and would seek to nullify or minimize every attempt for their simplification."

The above quotation applies with equal force to the situation here.

Respectfully submitted,

R. WELTON WHANN,
A. W. BOYKEN,
ROBERT M. McMANIGAL,
Attorneys for Appellant.

Dated: May 24, 1946.

[Endorsed]: Filed May 24, 1946. [1167]

TELEGRAM

FA148 LG PD-WUX Duncan Okla 31 1235P
Paul O'Brien, Clerk U S Circuit Court of Appeals
Federal Courthouse and Post Office Bldg.
7th and Mission

Re: McCullough v. Kammerer Corp., No: 9957. Impossible for me to reach San Francisco in time for hearing next Monday of Appellant's Motion to Modify or Set Aside Decree, Recall Mandate and Determine Patent Patent Misuse. However, I do not wish to delay determination of motion if satisfactory to Court am willing and agree to submission of motion without oral argument. Will you please advise Court that my position on motion is that if the Court intended by its original order to reserve jurisdiction on former appeal to review District Court decision on alleged patent misuse defense then Appellee has no objection to court so holding. However, in absence of any indiction in original order to that effect, I am of the opinion that Court has now no power to entertain motion to recall mandate. See Waskey v. Hammer, 179 F. 273, Niocene Ditch Co. v. Campion Mining and Trading Co. 197 F. 497, and National Phonograph Co. v. Kellogg, 96 F. (2d) 873 or power now to amend mandate. See American Safety Razor Corp. v. International Safety Razor Corp., 61 F. (2d) 479, Casey v. Sterling Cider Co. 15 F. (2d) 52, Hart v. Wiltsee, 25 F. (2d) 863. Will you please read this telegram over telephone to Mr. Boyken.

LEONARD S. LYON. [1168]

United States Circuit Court of Appeals for the Ninth Circuit.

Excerpt from Proceedings of Monday, June 3, 1946.

Before: Denman, Mathews and Orr, Circuit Judges.

[Title of Cause.]

ORDER ON MOTION TO RECALL MANDATE, ETC.

Ordered motion of appellant to recall mandate and modify or set aside decree presented by Mr. A. W. Boyken, counsel for appellant in support of said motion, and submitted on behalf of appellees in opposition to such motion heretofore filed, and submitted to the court for consideration and decision. [1169]

[Title of Circuit Court of Appeals and Cause.]

APPELLANT'S REPLY MEMORANDUM

This is in reply to Mr. Leonard Lyon's wire and citation of cases.

The general rule, as correctly stated in the wire, was that the mandate of the Circuit Court of Appeals cannot be recalled after the end of the term (cases cited in Mr. Lyon's wire). The reason for the rule seems to be that the power of a court over its judgment must end some time.

But the general rule is subject to exceptions.

1. It applies only to final and not to interlocutory decrees.

John. Simmons Co. v. Grier Bros., 258 U. S. 82, 90; 42 S. Ct. 196, 199:

"Regarding, therefore, the decree of January 5, 1916, as an interlocutory, not a final one, there is neither technical nor substantial ground for applying to it the rules pertaining to a bill of review, and the bill herein called such is to be treated as essentially a petition for rehearing . . . and, of course, if an interlocutory decree be involved, a rehearing may be sought at any time before final decree, providing due diligence be employed and a revision be otherwise consonant with equity."

2. Rule 6(c) of the New Federal Rules abolishes the effect of the expiration of the term. [1170]

These new rules regulate federal appellate procedure. Although Nachod v. Engineering & Research Corp., 108 F. (2d) 594, holds that Rule 6(c) is inapplicable to the Circuit Court of Appeals, no authorities are cited and no reasons given. If the New Federal Rules regulate the manner in which a case may be taken up to the appellate court, they apply equally to the same case when it comes down from the reviewing court.

3. Clerical errors may be corrected at any time, even in final decrees and after the expiration of the term.

Cases cited in our Points and Authorities attached to motion.

Also Hart v. Wiltsee, 25 F. (2d) 863 cited by Mr. Lyon.

4. When both parties unite at a subsequent term in asking for a modification of the appellate court's mandate, to make it conform to a later opinion, the application should be granted.

Utah Power & Light v. United States, 242 Fed. 924, 925.

5. A Circuit Court of Appeals may modify even a final decree after expiration of the term because of "changed conditions and circumstances arising subsequent to its entry."

Stewart Die Casting Corp. v. National Labor Relations Board, 129 F. (2d) 481, 483.

National Popsickle v. Hughes, 32 F. Supp. 397, 399.

The present case comes within the exceptions to the general rule, and this Court may modify and correct its decree and mandate, so as to conform to the Court's opinion in 148 F. (2d) 525, notwithstanding the expiration of the term.

Respectfully submitted,
/s/ R. WELTON WHANN,
/s/ A. W. BOYKEN,
/s/ ROBERT M. McMANIGAL,
Attorneys for Appellant.

Dated: June 4, 1946.

[Endorsed]: Filed June 4, 1946. [1171]

United States Circuit Court of Appeals for the Ninth Circuit.

Excerpt from Proceedings of Tuesday, September 24, 1946.

Before: Denman, Mathews and Orr, Circuit Judges.

[Title of Cause.]

ORDER DENYING APPELLANT'S MOTION TO MODIFY OR SET ASIDE DECREE, ETC.

Upon consideration of the motion of appellant, filed May 24, 1946, to modify or set aside decree of this court, and of the reply of appellees thereto, filed June 3, 1946, and the oral argument of appellant in support of such motion on its submission on June 3, 1946, and good cause therefor appearing, It Is Ordered—Denman, Circuit Judge, dissenting—that said motion to modify or set aside the decree of this court be, and hereby is denied.

[1172]

[Title of Circuit Court of Appeal and Cause.]

CERTIFICATE OF CLERK, U. S. CIRCUIT OF APPEALS FOR THE NINTH CIRCUIT, TO RECORD CERTIFIED UNDER RULE 38 OF THE REVISED RULES OF THE SUPREME COURT OF THE UNITED STATES.

I, Paul P. O'Brien, as clerk of the United States Circuit Court of Appeals for the Ninth Circuit, do hereby certify the foregoing five volumes, consisting of one thousand one hundred seventy-two (1172) pages, numbered from and including 1 to and including 1172, to be a full, true and correct copy of the entire record of the above-entitled case in the said Circuit Court of Appeals, made pursuant to request of counsel for the appellant, and certified under Rule 38 of the Revised Rules of the Supreme Court of the United States, as the originals thereof remain on file and appear of record in my office.

Attest my hand and the seal of the said the United States Circuit Court of Appeals, for the Ninth Circuit, at the City of San Francisco, in the State of California, this 22nd day of November, 1946.

[Seal] /s/ PAUL P. O'BRIEN,
Clerk. [1173]

[fol. 1182] In the Supreme Court of the United States,
October Term, 1946

No. 755

Ida J. McCullough, Petitioner,

vs.

Kammerer Corporation, a Corporation, and Baash Ross Tool Company, a Corporation, Respondents

Stipulation Re Printing of Record

It is hereby stipulated by and between the parties by their respective counsel that, petitioner having filed eleven (11) copies of each of Volume Numbers I, II and VII and two (2) copies of each of Volume Numbers III, IV, V and VI of the printed record in the subject cause, additional copies of the record need not be printed or filed.

R. Welton Whaun, A. W. Boyken, Robert W. McMunigal, Counsel for Petitioner. Frederick S. Lyon, Leonard S. Lyon, Counsel for Respondent.

Dated: December 16, 1946.

[fol. 1183] Supreme Court of the United States, October Term, 1946

No. 755

Order Allowing Certiorari—Filed February 3, 1947

The petition herein for a writ of certiorari to the United States Circuit Court of Appeals for the Ninth Circuit is granted, limited to the first question presented by the petition for the writ. The case is transferred to the summary docket.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

In the Supreme Court of the United States

October Term, 1916.

No. 22

[illegible] J. McCormick,

Petitioner,

vs.

[illegible] Company, a corporation, and [illegible] Company, a corporation,

Respondents.

Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit

R. Wallace Wilson

[illegible] West [illegible] Street

Los Angeles, California

A. W. Rogers

[illegible]

San Francisco, California

[illegible] M. [illegible]

[illegible] West [illegible] Street

Los Angeles, California

Attorneys for Petitioner.

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In the Supreme Court of the United States

October Term, 1946

No. .....

IRA J. McCULLOUGH,

Petitioner,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Respondent.

Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit

To the Honorable Chief Justice and Associate Justices of the Supreme Court of the United States:

Petitioner prays that a writ of certiorari issue to review the judgment of the United States Circuit Court of Appeals for the Ninth Circuit entered June 29, 1946 (R. Vol. II, pp. 66-67).

OPINIONS BELOW

The opinion of the Circuit Court of Appeals and the dissenting opinion of Judge Denman (R. Vol. II, pp. 58-65)

are reported in 156 F.(2d) 343, 345. The oral opinion of the District Court will be found in the record at Vol. I, pp. 46-50.

For earlier opinions in this suit see 323 U.S. 327, 148 F.(2d) 525, 138 F.(2d) 482, 39 F.Supp. 213.

JURISDICTION

The judgment of the Circuit Court of Appeals was entered June 29, 1946 (R. Vol. II, pp. 57, 66-67). A petition for rehearing was denied on Sept. 9, 1946 (R. Vol. II, p. 86). The jurisdiction of this Court is involved under Section 240(a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTIONS PRESENTED

1. Whether after a Federal District Court, at the direction of the Circuit Court of Appeals, has reopened a patent suit to permit full consideration on the merits of an asserted defense of patent misuse, and has entered an order denying a motion to modify a previous decree and to dismiss the complaint, such order is appealable under Section 129 of the Judicial Code providing for appeals from any decree which is final except for an accounting?

2. Whether respondent licensor and licensee by executing and carrying out a series of covenants contained in the exclusive patent license, prohibiting both the licensor and licensee from making, using, or renting any existing or future tools competitive with the patented tool, prohibiting the sale of the patented tool by either licensor or licensee, and prescribing the price which licensee must charge "as rental" for the use of the patented tool, ille-

gally misused the patent grant so as to bar an account in this suit?

STATUTES INVOLVED

Section 129 of the Judicial Code, 43 Stat. 937, 44 Stat. 1261, 28 U.S.C. §§ 227, 227a, provides in part:

> "Where, upon a hearing in a district court, or by a judge thereof in vacation, an injunction is granted, continued, modified, refused, or dissolved by an interlocutory order or decree, or an application to dissolve or modify an injunction is refused, or an interlocutory order or decree is made appointing a receiver, or refusing an order to wind up a pending receivership or to take the appropriate steps to accomplish the purposes thereof, such as directing a sale or other disposal of property held thereunder, an appeal may be taken from such interlocutory order or decree to the circuit court of appeals; and sections two hundred and thirty-nine and two hundred and forty shall apply to such cases in the circuit courts of appeals as to other cases therein: *Provided,* That the appeal to the circuit court of appeals must be applied for within thirty days from the entry of such order or decree, and shall take precedence in the appellate court; and the proceedings in other respects in the district court shall not be stayed during the pendency of such appeal unless otherwise ordered by the court, or the appellate court, or a judge thereof: *Provided, however,* That the district court may, in its discretion, require an additional bond as a condition of the appeal. * * *
>
> "When in any suit in equity for the infringement of letters patent for inventions, a decree is rendered which is final except for the ordering of an accounting, an appeal may be taken from such decree to the circuit court of appeals: *Provided,* That such appeal be taken within thirty days from the entry of such

decree or from the date of this act; and the proceedings upon the accounting in the court below shall not be stayed unless so ordered by that court during the pendency of such appeal."

Sections 1 and 2 of the Sherman Act of July 2, 1890, c. 647, 26 Stat. 209, as amended, 15 U.S.C. §§ 1, 2, provide in pertinent part:

"Sec. 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal * * *."

"Sec. 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor * * *."

STATEMENT

Though phrased in terms of a jurisdictional issue, the first question raised by the present petition is relatively simple: In the course of patent litigation, the defendant presented an issue of patent abuse because of illegal restrictive covenants in the license agreement (R. Vol. I, pp. 5-11; also reproduced, for convenience, as an appendix hereto). These restrictive covenants, in an earlier certiorari in this same case, had induced the grant of the writ, and had been characterized by the Department of Justice, in an *amicus* brief, to "constitute an abuse of the patent privilege, contravene the Sherman Antitrust Act, and render the patent here unenforceable and invalid." The trial court, in direct opposition to decisions of this

Court and of several circuit courts of appeal, held against the defendant, and refused to modify its previous decree and to dismiss the complaint. The defendant appealed to the Ninth Circuit Court of Appeals, which, by a divided court, determined that the order was not appealable despite the provisions of Section 129 of the Judicial Code. In effect, the defendant cannot have a decision on a basic issue controlling the merits of the controversy until after a prolonged accounting, which may last several years, has been completed. The action of the Circuit Court of Appeals, in supposedly determining a mere question of jurisdiction, was characterized by the dissenting judge as a "clear case of obscuring in the form the essence of what, under our order, the lower court undertook and did." 156 F.(2d) at 346.

A brief review of the previous course of this litigation serves to bring into focus the issues presented.

These patent infringement suits, consolidated for trial, were previously before this Court on the question of patent misuse by virtue of restrictive covenants in a license agreement between the respondents. After certiorari had been granted and a full hearing had been held, this Court dismissed the writ without decision on the merits, because the "only question for which we granted certiorari is one not properly raised, litigated or passed upon below," and the "grounds asserted for the allowance of certiorari are inadequately supported by the record." 323 U.S. 327.

The record of the case then before the Court revealed that Respondent Kammerer Corporation was the owner and licensor of Reilly and Stone Patent No. 1,625,391, covering a tool for cutting and removing stuck drill pipe from

oil well holes. Respondent Baash-Ross Tool Company was the exclusive licensee under the patent. Suits were jointly brought and consolidated for trial in the federal District Court for infringement by petitioner. Petitioner, in his answers, denied both infringement and the validity of the patents, and in addition set up the defense that "the plaintiffs cannot maintain this suit because they do not come into this court with clean hands and are therefore estopped from enforcing any right of action against the answering defendant." (R. Vol. III, pp. 51-52, 78).

The Kammerer Corporation, the owner of the patent by assignment, was simply organized to hold the patent and license it. (R. Vol. I, pp. 6, 21; Vol. III, p. 163). It neither manufactured, sold, used, or leased tools. This corporation granted an exclusive license to Baash-Ross, which is in the business of manufacturing, selling, and renting oil-well fishing and other tools. The License Agreement (see appendix) bound the licensor and licensee not to manufacture, use or rent any "devices which will come or be in competition with the device or devices covered * * *."[1] The agreement further provided that the licensee might manufacture and use, *but not sell*[2] the patented tool. The use was confined to "rental" on a prescribed job basis for a prescribed rental of $190 per use. In practice the "rental" of the tool was made to the oil well owner, but

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1. As pointed out both by the petitioner and by the Department of Justice, in briefs filed in the previous hearing in this Court, the provisions of the License Agreement which precluded the parties from making or using devices competitive with the patented article were clearly unlawful; and the provisions making the "rental" for the patented device embrace services not covered by the patent necessarily distinguish the case from *United States v. General Electric Co.*, 272 U.S. 476.

2. Italics throughout are supplied unless otherwise indicated.

the licensee provided its own experienced operators to direct its employment (R. Vol. III, pp. 288, 290, 291). The $190 was charged for the entire operation. As "royalty," the licensor was to receive fifty per cent of "the *gross* earnings accruing by the use of said devices by the Licensee." Further, the licensor also was bound by the agreement not to sell the patented tool to anyone.[3]

Although the issue of patent misuse was present, it was not pressed by petitioner and was not picked up by the lower courts *sua sponte*. After an interlocutory injunction had been entered and an accounting for profits and damages ordered, but postponed pending appeal, the Court of Appeals affirmed by a divided vote. 138 F.(2d) 482. This Court, after granting review because of the patent misuse issue, dismissed certiorari for the reasons already outlined.[3]

On remand, the Circuit Court of Appeals was petitioned to deny the accounting because of the patent misuse, or permit the petitioner to litigate the matter before the trial court. The Court of Appeals amended its former judgment of affirmance to permit the matter to be tried before the District Court. 148 F.(2d) 525.

In accordance with this order reopening the case, petitioner moved the District Court to modify the interlocutory judgment by eliminating the provision for an accounting and also asked for a final judgment dismissing the original complaints. The only issue presented was that of patent misuse, which this Court had determined had not been previously tried below. The trial court devoted a day to

3. The patent expired pending review, so that injunctive relief no longer was of consequence.

argument, afforded an opportunity to introduce further evidence if either party deemed that necessary, and ultimately rendered an oral opinion (R. Vol. I, pp. 46-50) and entered many new findings of fact and conclusions of law. (R. Vol. I, pp. 16-26). Petitioner's motion was denied. In denying the motion the trial court approved the restrictive features of the license irrespective of whether "we call it a joint venture or not," since the license involved a single licensor and a single licensee:

> "* * * If we say that a man cannot agree with an exclusive licensee that he shall not handle other articles that might compete with it, we really prevent the patent owner from the benefit of the monopoly which his discovery entitles him to, under the Constitution, and the law, and the law of the State." (R. Vol. I, p. 48)

> "* * * the covenants themselves are of a character which the owner of a patent has a right to enter into with one whom he makes an exclusive licensee, aiming at the exploitation of the invention." (R. Vol. I, p. 49)

This denial of the defense of patent misuse terminated the litigation, with the exception of the accounting which is proceeding and may continue to proceed for some years. Petitioner then appealed to the Circuit Court of Appeals. The majority of that Court held that it was without jurisdiction under §129 of the Judicial Code, since the order denying the motion to modify the order for an accounting and to dismiss the suits was not a "decree, final or otherwise." The majority held that §129, in permitting appeals in patent cases where "a decree is rendered which is final except for the ordering of an

accounting" still required that an accounting be held before the newly-litigated and now controlling issue of patent abuse could be reviewed. Reliance for this conclusion was placed on this Court's recent decision in *Catlin v. United States*, 324 U.S. 229, a suit involving land condemnation under the eminent domain power. 156 F.(2d) 343. Judge Denman, dissenting, pointed out the impropriety of resorting to cases foreign to the patent field to sustain lack of jurisdiction. He deemed the order below "a final decision on the dominant issue", and the opinion of the majority "a clear case of obscuring in the form the essence of what, *under our order*, the lower court *undertook and did.*" 156 F.(2d), at 346.

REASONS FOR GRANTING THE WRIT

1. The Circuit Court of Appeals for the Ninth Circuit has decided an important question of federal law, which has not, but should be settled by this Court. In deciding this jurisdictional question, the majority below not only has defeated the policy of this Court in facilitating resistance to patent abuse, but has misinterpeted and misapplied this Court's recent decision in *Catlin v. United States*, 324 U.S. 229.

In the patent field, this Court has long been concerned with the monopolistic consequences of patent misuse. It has done what it has been able to do, to withhold the fruits of such abuse from persons acting contrary to the public interest or in violation of the anti-trust laws. Cf., e.g., *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240; *Carbice Corporation of America v. American Patents Development Corporation*, 283 U.S. 27; *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488. The policy of

this Court in recent years, it is submitted, has been to encourage and implement resistance to unlawful extension of the privileges conferred by the patent law. The object has been to prevent unlawful and unwarranted interference with normal competitive forces.

Resistance to improper claims of monopoly in a competitive field by virtue of patent protection is hampered and often rendered impossible by the great expense involved in contesting the validity of the patent said to dominate the field, or to attack its use on public policy and Sherman Act grounds. It has been generally conceded that patent litigation is expensive and that compensation for even a successful defendant in an infringement suit is wholly inadequate. *Woodward*, "A Reconsideration of the Patent System as a Problem of Administrative Law", 55 *Harv. L. Rev.* 950, 969 *et seq.* (1942). The line of least resistance is to accept a license on whatever terms one may be tendered or retire from the field, rather than undertake such an onerous burden of vindicating public policy.

The policy of this Court in aiding what is essentially defense of the public interest at private expense can be implemented only by a futherance of the Congressional effort to eliminate needless expense in patent litigation. The majority opinion below has struck a blow against that policy.

Section 129 of the Judicial Code has sanctioned interlocutory appeals in a number of situations. The granting of an interlocutory injunction or the refusal to modify or dissolve such a decree affords the basis for an immediate appeal. Thus in a patent case the entry of an order for an interlocutory injunction against infringement and requiring an accounting is appealable. In fact such an appeal

was taken in the instant case and the accounting was stayed pending its outcome. Likewise an unsuccessful motion, which was actually considered by the court, to dissolve an injunction would result in an appealable order. In the instant case, however, the injunction became non-operative by virtue of expiration of the patent.

Prior to 1927, the expiration of the patent in suit and the resulting mootness of the injunction phase of the infringement proceeding, had resulted in an anomalous situation. Although the policy of the law was to permit immediate and interlocutory appeals in patent suits, the elimination of the injunction prevented appeal prior to completion of the accounting. This led to the 1927 amendment providing for appeals in patent infringement cases when "a decree is rendered which is final except for the ordering of an accounting."[4]

The bill which resulted in this amendment was introduced at the request of Judge Evans of the Seventh Circuit Court of Appeals, had the approval of the Commissioner of Patents, the entire patent bar, and all of the Federal Judges. S. Rep. No. 1319, 69th Cong., 2d Sess. In support of the bill Judge Evans wrote:

> "* * * Some years ago the owner of a very important patent brought suit in one of the district courts of Illinois, and the defendant interposed the defense of invalidity. The case was very well contested, and the court was in doubt as to the validity of the patent. The court finally upheld the patent and found infringement. The defendant had for a long

4. For the history of this and prior amendments to Section 129, see *Brick v. A. I. Namm & Sons, Inc.*, 21 F.(2d) 179 (E.D.N.Y. 1927); *Ward Baking Co. v. Weber Bros.*, 230 Fed. 142 (C.C.A.3d, 1916).

period of time been infringing the patent. It took the position that it had a right to do so and was so advised by counsel. The account was a very long one, and I am satisfied that it cost the litigants $50,000. Finally the report of the matter was confirmed by the district court and judgment was entered against the infringer for something like a million dollars.

"The case has now reached our court, and there are about 15,000 pages of testimony. The appellant insists that the patent is invalid, although its appeal is both from the award and from that part of the decree which sustains the patent and holds the appellant as an infringer.

"If the patent should be declared invalid, all of this expense on this account will have been for naught. Not only will it have been a useless expense to the litigants, but it has taken much of the court's time.

"Appeals may now be taken from the interlocutory injunctional decree upholding the patent when a patent is granted. If, however, the patent has expired when the decree is entered, though it was in force when the suit was begun, an appeal can not be taken until a full account has been had.

"It is to remedy this situation that your bill H. R. 11840 has been introduced. I sincerely trust that it will pass at this session of Congress." (H. Rep. No. 1890, 69th Cong., 2d Sess., 1-2).

The policy of Congress was thus to eliminate the pendency of the injunction in an infringement suit as a factor in immediate appealability. Congress recognized the desirability of interlocutory appeals. And both before and after the 1927 amendment the courts made it clear how broadly Section 129 sanctioned appeals from interlocutory orders, especially in patent cases.

This Court has entertained a patent case appealed under Section 129 to the Court of Apeals for a second time prior to an accounting. *John Simmons Co. v. Grier Bros. Co.*, 258 U.S. 82. Compare *Marconi Wireless Telegraph Company of America v. United States*, 320 U.S. 1, 47. In the *Grier* case, the interlocutory decision on a request for injunction, affirmed on appeal, was reopened on a request for rehearing, and the resulting order was likewise appealed.

Both successful and unsuccessful motions to vacate or dissolve injunctions have been held appealable under Section 129. *Schifrin v. Cheadle Mfg. Co.*, 117 F.(2d) 92 (C.C.A.2d, 1941) (motion to vacate granted); *Rivers v. Miller*, 112 F.(2d) 439 (C.C.A.5th, 1940) (motion to dissolve denied); *Mississippi Valley Trust Co. v. Railway Steel Spring Co.*, 258 Fed. 346 (C.C.A.8th, 1919) (motion to vacate denied); *Bothwell v. Fitzgerald*, 219 Fed. 408 (C.C.A.9th, 1915) (motion to vacate granted); *American Grain Separator Co. v. Twin City Separator Co.*, 202 Fed. 202 (C.C.A.8th, 1912) (motion to dissolve denied).

A denial of a motion to strike an answer has been held appealable. *Swan Carburetor Co. v. Nash Motors Co.*, 98 F.(2d) 115 (C.C.A.4th, 1938). And both under the earlier text of the Section and the 1927 addition an order denying a motion to amend a complaint with respect to a patent claim—a claim which had been held unenforceable by an earlier order in the case—was held appealable. *Michigan Carton Co. v. Sutherland Paper Co.*, 29 F.(2d) 179 (C.C.A. 6th, 1928).

This broad policy in patent cases is negatived by the majority of the court below by applying this Court's opinion in *Catlin v. United States*, 324 U.S. 229. This is

an application of the *Catlin* case, it is submitted, contrary to the intent of this Court. The Court, through Mr. Justice Rutledge, was interpreting policy in a wholly unrelated field involving different statutory provisions. The condemnation of land under the eminent domain power will seldom result in an illegal condemnation, but will frequently result in hotly contested questions of just compensation. In such circumstances it is efficacious to postpone review until a final judgment on all matters has been entered. In keeping with this policy, under §128 of the Judicial Code, only "final decisions" in such cases are reviewable. Even in this field, the Court recognized that in the District of Columbia interlocutory decrees in condemnation suits are reviewable by virtue of the statute there prevailing permitting review of interlocutory orders. See 324 U.S., at 232, footnote 6.

In the patent field there is a practical necessity, as has been seen, to avoid the expense of unnecessary accountings. In this entirely different setting, the application of the *Catlin* case is unwarranted and this Court can clarify the law by granting certiorari and reviewing the instant case.

There would seem to be little question that the order in the instant case was final except for the accounting, within the meaning of Section 129. It is not important whether a refusal even to *entertain* a rehearing is non-appealable. In the instant case, because of the public interest involved, the proceeding in the trial court was reopened to entertain evidence and make findings with respect to the heretofore dormant issue of patent misuse. The reopening was not evidenced by vacating the previous decree. That was not necessary unless on the merits the

petitioner proved to be successful in establishing patent misuse in violation of public policy or the Sherman Act. After full hearing, the trial court decided that the license agreement on its face was valid, making many new findings of fact, and entered an order refusing to dismiss the complaint or modify the requirement for an accounting. Since infringement and validity had already been determined, and *for the first time* the issue of patent misuse had been heard and disposed of, the case had become final, except for the accounting.

It is submitted Section 129 at that stage authorized an appeal. If the trial court had vacated its previous decree while it heard the patent misuse question and had then reinstated it, there would seem to be no question of appealability. Different consequences should not flow from the full hearing accorded, without this technical step, under the Court of Appeals' decision to permit the vital question of patent misuse to be litigated *for the first time* below. Once that issue was entertained by the trial court, which devoted a day to its exploration, it was clear that the case was reopened, that no accounting would *ever* be had unless the issue presented were resolved in favor of the respondents. When that issue was resolved the order entered was a final one, except for the accounting. The application of the *Catlin* case to this situation, and the defeat of Congressional and public policy involved, would require that certiorari be granted.

2. Of the substantive issue of patent misuse—the second question presented—the reasons which led this Court to grant certiorari when this case was last before it would seem to compel similar treatment now that the record has been perfected. The issue of patent misuse by virtue of

the license agreement between respondents has now been raised in the trial court, and that court has said:

> "* * * analyzing the instrument on its face, the covenants themselves are of a character which the owner of a patent has a right to enter into with one whom he makes an exclusive licensee, aiming at the exploitation of the invention." (R. Vol. I, p. 49)

Since both respondents covenanted not to deal in competitive devices, and since the Circuit Court of Appeals for the Third Circuit, in *National Lockwasher Company v. George K. Garrett Company, Inc.*, 137 F.(2d) 255, held such an arrangement in restraint of trade, review by this Court would seem necessary.

In addition, the rigid restrictions of the license on what the licensee may do and what it may charge for renting the patented tool, together with the necessary operating crew, raise a serious question as to whether the license has not been so conditioned "as to control conduct by the licensee not embraced in the patent monopoly." *Ethyl Gasoline Corporation et al. v. United States*, 309 U.S. 436, 456.

Insofar as the trial court sanctioned price-fixing by a *non-manufacturing* licensor, the court was extending *United States v. General Electric Co.*, 272 U.S. 476, beyond its legitimate scope. Such an extension is in conflict with *United States v. Vehicular Parking*, 54 F.Supp. 828 (D.Del. 1944), where the Court ruled that the "General Electric case is predicated upon the patentee making and vending the patented device." The continued validity of the *General Electric* case, even when confined to the facts there presented, has not gone without challenge. *United States v. Line Material Co.*, Oct. Term, 1946, No. 464. Its extension

in the instant case would seem to call for review by this Court. This is particularly so in the setting of the restrictive instrument involved, forbidding sales by either party and providing for rentals under narrowly defined circumstances. All this the trial court sanctioned to prevent "the patent right" from becoming "an illusory right." (R. Vol. I, p. 48)

Although this Court could confine its grant of certiorari to the jurisdictional question determinative of the case in the Court of Appeals, it is respectfully urged that the review granted be not so limited. This Court, in *Liberty Oil Co. v. Condon National Bank*, 260 U.S. 235, 245, stated:

> "* * * we could consider and decide the issue which the Circuit Court of Appeals erroneously refused to consider. On such an issue alone, however, we would not have granted the writ, because except for the important question of practice, the case was not of sufficient public interest to justify it."

In the instant case, the substantive question alone amply justifies review, as witness the previous grant of certiorari by this Court on the substantive question. Only further delay would ensue from remanding the case to the Court of Appeals for determination of the public policy issue of patent abuse which must ultimately be determined by this Court. Even unresolved doubts as to the jurisdiction of the courts below have not prevented this Court from passing on the merits of cases before it. Cf. *Inland Empire District Council v. Millis*, 325 U.S. 697. It is therefore urged that this case be reviewed in its entirety so that all questions may be determined.

CONCLUSION

It is respectfully submitted that this petition for a writ of certiorari should be granted.

Dated, San Francisco, California,
December 9, 1946.

R. Whelton Whann
A. W. Boyken
Robert M. McManigal
Attorneys for Petitioner

W. Bruce Beckley
Boyken, Mohler & Beckley
Of Counsel

(APPENDIX FOLLOWS)

Appendix

PLAINTIFF'S EXHIBIT No. 7

LICENSE AGREEMENT

THIS AGREEMENT, made and entered into this 18th day of October, 1923, by and between Kammerer Corporation, a corporation organized and existing under and by virtue of the laws of the State of California, with its principal place of business at Santa Fe Springs, County of Los Angeles, State of California, hereinafter referred to as the Licensor, and L. F. Baash Perforating Company, a corporation, organized and existing under and by virtue of the laws of the State of California, with its principal place of business at Brea, County of Orange, State of California, hereinafter referred to as the Licensee:

WITNESSETH:

THAT, WHEREAS, the Licensor is the sole owner of Letters Patent No. 1,277,660,* covering Tools for Cutting and Removing Pipe From Wells, and of that certain application for Letters Patent of the United States, Serial No. 652,511, covering Tools for Cutting and Removing Pipe From Wells, which said application was filed on the 19th day of July, 1923;† and

WHEREAS, the Licensor has and does hereby warrant that it is the sole owner of the aforesaid inventions and all rights thereto; and

*Probably misprint in record as correct number of Kammerer Patent is 1,277,600.

†This is the application for the Reilly and Stone Patent in suit.

WHEREAS, the Licensee is desirous of obtaining a license to and for the said inventions and any Letters Patent which may be granted on said application to the Licensor;

NOW, THEREFORE, for and in consideration of their respective covenants and agreements hereinafter contained, and of the full and faithful performance of each and every thereof, the parties hereto have and do hereby mutually agree as follows:

1. The Licensor hereby grants to the Licensee the exclusive right and license to manufacture and use, but not to sell, devices embodying the aforesaid inventions under any Letters Patent now granted or which may hereafter be granted or any applications now pending or any patents hereafter obtained on improvements on the device or devices above mentioned, throughout the United States of America and the territories thereof, said license to continue for the full term of any Letters Patent granted for said inventions or improvements thereon.

2. The Licensee covenants and agrees during the term of this license to pay the Licensor hereunder upon all devices embodying the aforesaid inventions, a royalty of fifty percent (50%) of the gross earnings accruing by the use of said devices by the Licensee.

3. The Licensee covenants and agrees during the term of this license to charge as a rental for the use of said device or devices the sum of One Hundred and Ninety Dollars ($190.00) per cut made by said device or devices.

4. The Licensee agrees to keep true and accurate books of account showing in detail the number of devices embodying the aforesaid invention manufactured by the

Licensee, together with the dates of the use thereof and the names of the parties to whom the same were rented or upon whose property the same were used, which books of account shall be open at all usual business hours for the inspection of the Licensor or its duly authorized agents. The Licensee further agrees to render to the Licensor on or before the fifteenth day of each and every calendar month during the term of this license, a true and correct statement in writing, setting forth the quantity of said devices manufactured by the Licensee during the preceding calendar month, together with a statement showing the dates of the use or rental thereof and the number of cuts made and the parties for whom the device or devices were used during the preceding calendar month.

5. The Licensee covenants and agrees to pay to the Licensor at its office at Santa Fe Springs, Los Angeles County, California, the royalties on the cuts reported in the statements hereinabove provided within thirty-six days after the statements are rendered.

6. It is hereby mutually covenanted and agreed by and between the parties hereto that any accounts of business done under this agreement by the Licensee, which are not paid within six (6) months from the time the statements of such business are rendered to the Licensor as hereinbefore provided, shall be considered bad accounts and any royalties which may have been paid on such business shall be deducted from the royalty account of the Licensor.

It is further agreed that at the time of making any such deduction the Licensor shall have the right to take over

the collection of such account or accounts by so notifying the Licensee and that for the purpose of collection the Licensor may use the Licensee's name and that for every such account collected by the Licensor, the Licensor may retain in addition to its royalty, all costs of collection.

It is further understood and agreed that whenever the Licensor has refunded the royalty on any non-collectible account and the Licensee thereafter makes collection of said account, that the Licensee shall repay the royalty theretofore refunded.

It is further understood and agreed that the Licensee will cooperate with the Licensor by furnishing the necessary evidence to prove the account on such claims as the Licensor undertakes to collect pursuant to this agreement.

7. The Licensee covenants and agrees that in the manufacture of devices under this license agreement it will stamp on all such devices so manufactured the word "Patented," together with the date of said patent or patents.

8. The Licensor agrees to diligently prosecute the aforesaid application for Letters Patent, Serial No. 652,511, and procure Letters Patent covering said invention, if possible, at the earliest date, and the Licensor agrees to indemnify and save harmless the Licensee against any and all liability, damage, loss or injury adjudged or sustained by reason of any claim or suit that said device constitutes an infringement upon any Letters Patent heretofore or hereafter granted; provided, however, that in case suit is brought against the Licensee, the Licensor

shall be given notice thereof and shall have opportunity to intervene and defend said claim or suit.

9. The Licensee hereby covenants and agrees that the Licensor shall have, and it is hereby given, a first lien on all devices manufactured under this agreement as and for security for the payment to the Licensor of all unpaid royalties which may accrue during the term of this agreement.

10. It is hereby mutually covenanted and agreed by and between the parties hereto that should the Licensee become bankrupt or be thrown into the hands of a receiver or receivers, then and in that event the Licensor shall have the option to purchase all of the devices manufactured by the Licensee under the terms of this agreement at the agreed price of three hundred ($300.00) Dollars, for each and every such device, and in payment for such devices the Licensor shall deduct from the purchase price the amount of its lien or liens for unpaid royalties and pay the remainder, if any there be, to the Licensee's trustee in bankruptcy or receiver or receivers.

11. The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement.

12. The Licensor covenants and agrees that during the term of this agreement, not to manufacture, sell, rent, license, use, or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement.

13. It is mutually covenanted and agreed that this license shall be assignable by the Licensee only upon the written consent of the Licensor, its successors or assigns.

14. It is further covenanted and agreed that the Licensee shall manufacture and use the required number of devices necessary to take care of the demand for said devices amongst the operators in the oil-fields of the United States of America. And in the event the Licensee shall fail or neglect to furnish the devices necessary to take care of the demand of the oil operators in any or all of the oil-fields of the United States of America, the Licensor may serve notice on the said Licensee to manufacture and furnish devices to the operators of any or of all of the oil-fields of the United States and if within one hundred twenty (120) days after such notice has been served upon the Licensee, the Licensee still fails or neglects to furnish devices in any or all of the oil-fields of the United States where there is demand therefor, then and in that event, the Licensor may manufacture and use, or license others to manufacture and use, the devices covered by this license agreement, in such oil-fields where the Licensee shall have failed to supply the demand for such devices, provided, however, that nothing in this paragraph contained shall give the Licensor or its licensee or licensees the permission to alter the prices fixed by this license agreement for the use of the devices covered hereby; and provided further that nothing herein contained shall require the licensee to enter more than one oil-field in each six month period of this agreement.

15. It is further covenanted and agreed that the Licensor shall have a right and option to cancel and terminate this agreement upon written notice to the Licensee

upon a breach of the terms of this agreement by the Licensee, which notice shall specify the breach and shall give the Licensee a right and option to remedy the breach within thirty (30) days after said notice. In the event that this license agreement shall be terminated in accordance with this paragraph when the said Licensee agrees to pay all royalties on cuts made prior to the date upon which this agreement becomes terminated and agrees to sell and deliver to the Licensor all the devices in existence at such time at the agreed price of three hundred ($300.00) Dollars per device.

In Witness Whereof, the Licensor has caused this agreement to be executed by its President and Secretary, duly authorized, and has caused its corporate seal to be affixed, and the Licensee has caused this agreement to be executed by its President and Secretary, duly authorized, and has caused its corporate seal to be affixed, all on the day and year first above written.

(Seal) Kammerer Corporation,
By Geo. Kammerer, *President.*

Attest:

Burdena V. Fitzgerald,
Assistant Secretary.

(Seal) L. F. Baash Perforating Company,
By L. F. Baash, *President.*

Attest:

J. B. Reilly,
Secretary.

[Endorsed]: Pltff. Exhibit No. 7. Filed 5/8/41.

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CHARLES ELMORE CROPLEY
CLERK

In the Supreme Court of the United States

October Term, 1946

No. 755

IRA J. McCULLOUGH,

Petitioner,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Respondents.

BRIEF FOR THE PETITIONER

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In the Supreme Court of the United States

October Term, 1946

No. 755

IRA J. McCULLOUGH,

Petitioner,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Respondents.

BRIEF FOR THE PETITIONER

OPINIONS BELOW

The opinion of the Circuit Court of Appeals and the dissenting opinion of Judge Denman (R. Vol. II, pp. 58-65) are reported in 156 F. (2d) 343, 345. The oral opinion of the District Court will be found in the record at Vol. I, pp. 46-50.

For earlier opinions in this suit see 323 U.S. 327, 148 F. (2d) 525, 138 F. (2d) 482, 39 F. Supp. 213.

JURISDICTION

The judgment of the Circuit Court of Appeals was entered June 29, 1946 (R. Vol. II, pp. 57, 66-67). A petition for rehearing was denied on Sept. 9, 1946 (R. Vol. II, p. 86). The jurisdiction of this Court is invoked under Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTION PRESENTED

Whether after a Federal District Court, at the direction of the Circuit Court of Appeals, has reopened a patent suit to permit full consideration on the merits of an asserted defense of patent misuse, and has entered an order denying a motion to modify a previous decree and to dismiss the complaint on the ground that there has been misuse of the patent and in violation of the Sherman Act, such order is appealable under Section 129 of the Judicial Code providing for appeals from any decree which is final except for an accounting?

STATUTE INVOLVED

Section 129 of the Judicial Code, 43 Stat. 937, 44 Stat. 1261, 28 U.S.C. §§227, 227a, provides in part:

> "Where, upon a hearing in a district court, or by a judge thereof in vacation, an injunction is granted, continued, modified, refused, or dissolved by an interlocutory order or decree, or an application to dissolve or modify an injunction is refused, or an interlocutory order or decree is made appointing a receiver, or refusing an order to wind up a pending receivership or to take the appropriate steps to accomplish the purposes thereof, such as directing a sale or other disposal of property held thereunder, an appeal

may be taken from such interlocutory order or decree to the circuit court of appeals; and sections two hundred and thirty-nine and two hundred and forty shall apply to such cases in the circuit courts of appeals as to other cases therein: *Provided*, That the appeal to the circuit court of appeals must be applied for within thirty days from the entry of such order or decree, and shall take precedence in the appellate court; and the proceedings in other respects in the district court shall not be stayed during the pendency of such appeal unless otherwise ordered by the court, or the appellate court, or a judge thereof: *Provided, however,* That the district court may, in its discretion, require an additional bond as a condition of the appeal. * * *

"When in any suit in equity for the infringement of letters patent for inventions, a decree is rendered which is final except for the ordering of an accounting, an appeal may be taken from such decree to the circuit court of appeals: *Provided,* That such appeal be taken within thirty days from the entry of such decree or from the date of this act; and the proceedings upon the accounting in the court below shall not be stayed unless so ordered by that court during the pendency of such appeal."

STATEMENT

In granting certiorari in this case on February 3, 1947, this Court limited review to the vital procedural question presented. Though resolution of the question is comparatively simple, the result reached will have widespread effect in aiding or frustrating resistance by private parties to patent abuse in violation of the Sherman Act and the public interest. A brief review of the pre-

vious course of this litigation serves to bring into focus the issue presented.

These patent infringement suits, consolidated for trial, were previously before this Court on the question of patent misuse by virtue of restrictive covenants in a license agreement between the respondents. After certiorari had been granted and a full hearing had been held, this Court dismissed the writ without decision on the merits, because the "only question for which we granted certiorari is one not properly raised, litigated or passed upon below" and the grounds asserted for the allowance of certiorari are inadequately supported by the record." 323 U.S. 327.

The record of the case then before the Court revealed that respondent Kammerer Corporation was the owner and licensor of Reilly and Stone Patent No. 1,625,391, covering a tool for cutting and removing stuck drill pipe from oil well holes. Respondent Baash-Ross Tool Company was the exclusive licensee under the patent. Suits were jointly brought and consolidated for trial in the Federal District Court for infringement by petitioner. Petitioner, in his answers, denied both infringement and the validity of the patents, and in addition set up the defense that "the plaintiffs cannot maintain this suit because they do not come into this court with clean hands and are therefore estopped from enforcing any right of action against the answering defendant." (R. Vol. III, pp. 51-52, 78.)

It is not necessary to go into the price fixing and other restrictive covenants alleged to be in violation of the Sherman Act. Although the issue of patent mis-

use was always present, it was not pressed by petitioner and was not picked up by the lower courts *sua sponte*, as it might have been. After an interlocutory judgment and injunction had been entered and an accounting for profits and damages ordered, but postponed pending appeal, the Court of Appeals affirmed by divided vote, 138 F. (2d) 482. The patent involved expired pending review here, so that injunctive relief no longer was of consequence. This Court, after granting review because of the *patent misuse issue*, dismissed certiorari for the reasons already outlined.

On remand, the Circuit Court of Appeals was petitioned to deny the accounting because of the patent misuse, or alternatively to permit the petitioner to litigate the matter before the trial court (R. Vol. VII, pp. 1102-1104). The Court of Appeals amended its former judgment of affirmance to permit the matter to be tried before the District Court. 148 F. (2d) 525.

In accordance with this order reopening the case, petitioner moved the District Court to modify the interlocutory judgments in the consolidated cases by eliminating the provision for an accounting and also asked for final judgments dismissing the original complaints (R. Vol. I, pp. 2-4). The only issue presented was that of patent misuse, which this Court had determined had not been previously tried below. The trial court devoted a day to argument, afforded an opportunity to introduce further evidence if either party deemed that necessary, and ultimately rendered an oral opinion (R. Vol. I, pp. 46-50) and entered many new findings of fact and conclusions of law (R. Vol. I, pp. 16-26). Petitioner's motion was

denied in an order entered on June 5, 1945, by the District Court (R. Vol. I, p. 26). The Court consolidated its judgment with its findings of fact and conclusions of law in a document entitled "Findings Of Fact, Conclusions Of Law And Order Denying Defendant's Motions" (R. Vol. I, p. 16). The judgment itself was entitled "ORDER" (R. Vol. I, p. 26) and read in pertinent part:

> "It Is Therefore Ordered that the motion of the Defendant to modify the Interlocutory Judgments by striking therefrom the provision requiring an accounting to ascertain the profits and damages from the infringement by Defendant, or to stay the accounting is hereby denied;
>
> "It Is Further Ordered that the motion of the Defendant for final judgments dismissing the complaints is hereby denied . . . "

In denying the motion the trial court approved the restrictive features of the license in its findings and opinion. This was the first time that the issue of patent misuse had been passed upon by any court in this case.

This denial of the defense of patent misuse terminated the litigation in the trial court with the exception of the accounting which is proceeding and may continue to proceed for some years. Petitioner then appealed the order of June 5, 1945 to the Circuit Court of Appeals. The majority of that court held that it was without jurisdiction under §129 of the Judicial Code, since the order denying the motion to modify the order for an accounting and to dismiss the suits was not a "decree, final or otherwise." The majority held that §129, in permitting appeals in patent cases where "a decree is ren-

dered which is final except for the ordering of an accounting" still required that an accounting be held before the newly-litigated and now controlling issue of patent abuse could be reviewed. Reliance for this conclusion was placed on this Court's recent decision in *Catlin* v. *United States*, 324 U.S. 229, a suit involving land condemnation under the eminent domain power. 156 F. (2d) 343. Judge Denman, dissenting, pointed out the impropriety of resorting to cases foreign to the patent field to sustain lack of jurisdiction. He deemed the order below "a final decision on the dominant issue" of patent misuse, and the opinion of the majority "a clear case of obscuring in the form the essence of what, *under our order*,[1] the lower court *undertook and did.*" 156 F. (2d) at 346.

A word should be added about a collateral motion made by petitioner in the Court of Appeals and not involved in the present proceeding before this Court. After the order of June 5, 1945 had been entered by the trial court and appeal to the Circuit Court of Appeals, petitioner, out of an excess of caution, filed a motion in the nature of a bill of review in the Court of Appeals. (R. Vol. VII, pp. 1170-1171.) The theory of this motion was stated to be that perhaps the Court of Appeals had remanded the question of patent misuse to the District Court, "meanwhile keeping the appeal open" so that the question could ultimately be determined by the Court of Appeals. This motion, independent of the appeal taken from the June 5, 1945 order now before this Court, was denied (R. Vol. VII, p. 1180).

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[1] Italics throughout this brief may be considered as having been added by petitioner.

SUMMARY OF ARGUMENT

The test of finality of an order will vary with the statutory provision and policy involved. Section 129 of the Judicial Code has established a policy of permitting interlocutory appeals in patent cases to avoid the needless expense of an accounting for profits or damages until it can be determined that recovery may be had.

Judge Evans of the Seventh Circuit Court of Appeals was particularly active in urging the adoption of such a statutory mandate. The policy of the 1927 amendment to §129 was to eliminate the pendency of an injunction proceeding as a necessary basis for immediate review in patent cases.

Section 129 has been liberally construed. It is applicable to the present case. Here, after this Court granted certiorari but subsequently declined to consider the issue of patent misuse, the Court of Appeals amended its affirmance of the judgment below to permit consideration of the issue of patent misuse. Pursuant to this order the trial court opened the case by offering either party the opportunity to introduce further evidence bearing on the restrictive nature of the licensing agreement involved. The trial court heard argument for one day, entered additional findings of fact and conclusions of law, and rendered an opinion holding there had been no patent misuse as it interpreted the law. The court then entered an order dated June 5, 1945 denying the request to strike the order for an accounting and to dismiss the complaints. At that stage the proceeding became final except for the accounting and the case was appealable as clearly provided by §129.

The fact that a previous appeal had been taken is immaterial under §129, as this Court has held. The issue of patent abuse is sometimes injected into a case at a late stage because of the developing law and the public nature of the issue, permitting even the court to raise the question *sua sponte* at any time. Here the issue was considered on the merits by the trial court on petitioner's motion, and the resulting order of June 5, 1945 *first disposed of all questions other than profits or damages* which are to be resolved by the accounting.

The policy of this Court in aiding what is essentially defense of the public interest at private expense can be implemented only by a furtherance of the Congressional effort to eliminate needless expense in patent litigation. The expense of an accounting is so great as to induce persons charged with infringement to take a license on any terms that one may be obtained or retire from the field, instead of trying the issue of patent abuse. Permitting appeal prior to an accounting keeps down the threat of expensive litigation and thus supports the policy of the Congress and this Court.

ARGUMENT

I.

THE ORDER OF JUNE 5, 1945, WAS A DECREE "FINAL EXCEPT FOR THE ORDERING OF AN ACCOUNTING" WITHIN THE MEANING OF §129 OF THE JUDICIAL CODE.

There is no need to remind this Court that what is a final order, decree, or judgment depends upon the circumstances of a particular case and the intent of the statute involved. A final judgment of a state court sufficient to give this Court jurisdiction on appeal or certiorari may be quite different from a final order of a lower federal court reviewable on appeal.[2] By definition the final decree in patent infringement suits referred to in §129 of the Judicial Code is anything but a final order, judgment, or decree. Section 129 specifically provides that the decree which has been rendered to be appealable must be "final except for the ordering of an accounting." This amounts to saying that all the issues on the merits must have been disposed of and the only remaining question must be one of the amount of profits or damages. The purpose of the Section in patent suits is thus

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[2] The delicacy of the relationship between the states and the Federal Government has led to a strictness as to finality in review by this Court of state court judgments not practiced with respect to federal judgments even in those cases where there is an applicable statutory requirement of finality. See Boskey, *Finality of State Court Judgments under the Federal Judicial Code*, (1943) 43 COL. L. REV. 1002. Even in the state court judgment field there may be considerable question when a judgment has become final, and finality once determined may be postponed because of intervening events. Thus a final judgment ceases to be final if a petition for rehearing is filed in time. *Griffin* v. *Appellate Division*, 306 U.S. 619. And even if the petition for rehearing is filed out of time it erases finality of the judgment if the petition is in fact entertained by the Court. *Chicago G. W. R.R. Co.* v. *Basham*, 249 U.S. 164, 167; *cf. Pfister* v. *Finance Corp.*, 317 U.S. 144, 148-151.

to permit review of the issues of patent validity, infringement, and patent misuse prior to requiring the resolution of the difficult and costly question of damages.

Section 129 of the Judicial Code has sanctioned interlocutory appeals in a number of situations. The granting of an interlocutory injunction or the refusal to modify or dissolve such decree affords the basis for an immediate appeal. Thus in a patent case the entry of an order for an interlocutory injunction against infringement and requiring an accounting is appealable. In fact such an appeal was taken in the instant case and the accounting was stayed pending its outcome. Likewise an unsuccessful motion, which was actually considered by the Court, to dissolve an injunction would result in an appealable order, as we shall see. In the instant case, however, the injunction became non-operative by virtue of expiration of the patent.

Prior to 1927, the expiration of the patent in suit, and the resulting mootness of the injunction phase of the infringement proceeding, had resulted in an anomalous situation. Although the policy of the law was to permit immediate and interlocutory appeals in patent suits, the elimination of the injunction prevented appeal prior to completion of the accounting. This led to the 1927 amendment, providing for appeals in patent infringement cases when "a decree is rendered which is final except for the ordering of an accounting."

The bill which resulted in this amendment was introduced at the request of Judge Evans of the Seventh Circuit Court of Appeals, had the approval of the Commissioner of Patents, the entire patent bar, and all of

the Federal Judges. S. Rep. No. 1319, 69th Cong., 2d Sess. In support of the bill Judge Evans wrote:

". . . Some years ago the owner of a very important patent brought suit in one of the district courts of Illinois, and the defendant interposed the defense of invalidity. The case was very well contested, and the court was in doubt as to the validity of the patent. The court finally upheld the patent and found infringement. The defendant had for a long period of time been infringing the patent. It took the position that it had a right to do so and was so advised by counsel. The account was a very long one, and I am satisfied that it cost the litigants $50,000. Finally the report of the matter was confirmed by the district court and judgment was entered against the infringer for something like a million dollars.

"The case has now reached our court, and there are about 15,000 pages of testimony. The appellant insists that the patent is invalid, although its appeal is both from the award and from that part of of the decree which sustains the patent and holds the appellant as an infringer.

"If the patent should be declared invalid, all of this expense on this account will have been for naught. Not only will it have been a useless expense to the litigants, but it has taken much of the court's time.

"Appeals may now be taken from the interlocutory injunctional decree upholding the patent when a patent is granted. If, however, the patent has expired when the decree is entered, though it was in force when the suit was begun, an appeal can not be taken until a full account has been had.

"It is to remedy this situation that your bill H.R.

11840 has been introduced. I sincerely trust that it will pass at this session of Congress." (H. Rep. No. 1890, 69th Cong., 2d Sess., 1-2).

In commenting on the purpose of the 1927 amendment permitting appeals of orders not final because an accounting had not been held, the Court in *Brick* v. *A. I. Namm & Sons, Inc.*, 21 F. (2d) 179, 180 (E.D.N.Y. 1927), said:

> "Where, however, no question of injunctive relief could be decided because the patent had expired, there was nothing left to be decided but the accounting, and for all practical purposes such decree was final, yet there was no appeal provided for by statute, except and after the accounting had been completed and a final decree thereon entered. Thus, in such cases, although the higher court should subsequently decide that the patent had been invalid, or had not been infringed, nevertheless such question could not be brought before the court until the whole expense of possibly an extensive accounting had been borne and paid for, in such cases unnecessarily."[3]

The policy of Congress was thus to eliminate the pendency of the injunction in an infringement suit as a factor in immediate appealability. Congress recognized the desirability of interlocutory appeals. And both before and after the 1927 amendment the courts made it clear how broadly §129 sanctioned appeals from interlocutory orders, especially in patent cases.

Both successful and unsuccessful motions to vacate or

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[3] For the history of prior amendments to §129, see *Ward Baking Co.* v. *Weber Bros.*, 230 Fed. 142 (C.C.A. 3d, 1916).

dissolve injunctions have been held appealable under §129. *Schifrin* v. *Chenille Mfg. Co.*, 117 F. (2d) 92 (C.C.A. 2d, 1941) (motion to vacate granted); *Rivers* v. *Miller*, 112 F. (2d) 439 (C.C.A. 5th, 1940) (motion to dissolve denied); *Mississippi Valley Trust Co.* v. *Railway Steel Spring Co.*, 258 Fed. 346 (C.C.A. 8th, 1919) (motion to vacate denied); *Bothwell* v. *Fitzgerald*, 219 Fed. 408 (C.C.A. 9th, 1915) (motion to vacate granted); *American Grain Separator Co.* v. *Twin City Separator Co.*, 202 Fed. 202 (C.C.A. 8th, 1912) (motion to dissolve denied).

A denial of a motion to strike an answer has been held appealable. *Swan Carburetor Co.* v. *Nash Motors Co.*, 98 F. (2d) 115 (C.C.A. 4th, 1938). And both under the earlier text of the Section and the 1927 addition an order denying a motion to amend a complaint with respect to a patent claim—a claim which had been held unenforceable by an earlier order in the case—was held appealable. *Michigan Carton Co.* v. *Sutherland Paper Co.*, 29 F. (2d) 179 (C.C.A. 6th, 1928).

The facts of the instant case must be closely examined in determining whether the order of June 5, 1945 has achieved a degree of finality satisfying the statutory mandate that an appeal be allowed when all questions other than profits or damages have been resolved. When this case was remanded to the Circuit Court of Appeals from this Court, the Court of Appeals was asked by petitioner to pass on the issue of patent misuse or alternatively to remand the case to the trial court for determination of the final issue on the merits. On March 14, 1945 the Court of Appeals in a *per curiam* opinion said:

". . . . It is ordered that the judgment of this court be otherwise *amended* to provide that the cause be remanded to the district court and that that court may entertain a motion or motions based upon such contention to modify or set aside its order or orders for such damages and accountings thereof, and take such action thereon as it may determine." (R. Vol. VII, p. 1167). 148 F. (2d) 525, 526.

The word "amended" has been italicized for emphasis—and rightly so, for it is a key word to an understanding of what has transpired. The prior affirmance of the judgment below by the Court of Appeals was now qualified in anticipation of a further consideration of the merits in the trial court.

Upon remand the trial court, in obedience to the *per curiam* opinion of the Court of Appeals, entertained the final issue of patent misuse on the merits. It might have done so by initially vacating its judgment[4] pending hearing of the defense of patent misuse. This step was hardly necessary, however, for in the event that it determined that there had been no patent misuse the formal vacation of the earlier judgment would have been a useless act. It was therefore just as appropriate for the trial court to consider the issue of patent misuse on the merits prior to tampering with its earlier judgment. The trial court in a real sense permitted consideration of the question of patent misuse on the merits. It offered both parties the opportunity to introduce further evidence.

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[4] The effect of a rehearing is to "vacate" the former judgment "so that thereafter the cause shall stand as if no judgment had been entered." *Hook v. Mercantile Trust Co.*, 95 Fed. 41, 49 (C.C.A. 7th, 1899).

Since the license agreement was already before the court, and petitioner felt the agreement violated the Sherman Act and public policy, petitioner did not feel it necessary to introduce testimony. Nor did respondent offer any additional evidence. However, a day was devoted to argument of the legal issue presented and findings of fact and conclusions of law were entered. The order of June 5, 1945 resulted. The issue had been entertained in a real sense, but the trial court was of the opinion, which we deem erroneous, that the license agreement was not a misuse of the patent.

The question of what is a misuse of a patent has been the subject of considerable attention in this Court in recent years. It is not always clear what constitutes patent misuse. Compare *Edward Katzinger Co.* v. *Chicago Metallic Co.*, Nos. 70 & 71, Oct. T., 1946 and *MacGregor* v. *Westinghouse Electric & Manufacturing Co.*, No. 28, Oct. T., 1946, decided Jan. 6, 1947, with *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, No. 208, Oct. T., 1946, decided Feb. 3, 1947. In this state of the law it is not too unusual for the issue of patent misuse to be first actively litigated at some advanced stage in a court proceeding. The issue is so vital to the public policy of the United States that a court could raise the matter of patent misuse or patent invalidity on its own motion, or on the motion of the Solicitor General. *Slawson* v. *Grand Street R.R. Co.*, 107 U.S. 649; *Beasley* v. *Texas and Pacific Railway Co.*, 191 U.S. 492; *Vitamin Technologists* v. *Wisconsin Alumni Research*, 146 Fed. (2d) 941 (C.C.A. 9th, 1944); *Gyrex Corp.* v. *Dilex Institute of Feminine Hygiene, Inc.*, 85 F. (2d) 103 (C.C.A. 2d, 1936).

See also *Hazel-Atlas Co.* v. *Hartford-Empire Co.*, 322 U.S. 238. On the previous review of the instant suit in this Court the Solicitor General appeared as amicus and urged that there had been patent misuse. This Court, however, apparently believed that the issue should first be resolved below.

All of this adds up to the fact that the developing concept of patent misuse and fraud will often be injected into a case at some unusual stage in its progress through the courts.[5] In fact the issue may be first raised during the accounting proceeding. *National Lockwasher Company* v. *George K. Garrett Company*, 137 F. (2d) 255 (C.C.A. 3d, 1943). This Court has held there is no lack of power at any time prior to the entry of final judgment at the close of the accounting to reconsider any portion of the decision and reopen any part of the case. *Marconi Wireless Telegraph Co.* v. *United States*, 320 U.S. 1, 47. That is not to say that a trial court may not under appropriate circumstances decline to hear an issue of patent misuse at an advanced stage because of the ensuing delay. Thus this Court has noted that where additional testimony must be received, that is a factor weighing against consideration of patent misuse which was not litigated at the start. *Marconi Wireless Telegraph Co.* v. *United*

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[5] Where the public interest is involved the question of diligence or want of diligence of a party to the case is relatively unimportant. "The rule is firmly established that, *whenever* in the course of the proceeding the court is informed *in any way* that the plaintiff is without clean hands, that it is using the monopoly of the patents in suit to restrain competition on unpatented things in violation of law, the court should inquire into the facts of its own accord, and if it finds the charge to be true relief should not be granted." *Frank Adam Elec. Co.* v *Westinghouse Elec. Mfg. Co.* 146 F. (2d) 165, 167 (C.C.A. 8th, 1945).

States, supra, at p. 48. There is no such question involved here as to the discretion of the trial court, for the trial court was even willing to receive additional testimony and fully considered the question of patent misuse before entering its order of June 5, 1945. Under these circumstances it is submitted that the order of June 5, 1945 was a final order or decree disposing of the case with the exception of the accounting and reviewable under §129.

It may be suggested that such an interpretation will lead to a second review prior to the accounting. This Court has not considered the necessity for a second review in the unusual circumstances here presented in a patent suit to be a bar under §129. Thus in *John Simmons* v. *Grier Bros. Co.*, 258 U.S. 82, the interlocutory decision on a request for injunction, affirmed on appeal, was reopened on a request for rehearing, and the resulting order was likewise held appealable. This patent decision was cited with approval in the *Marconi* case, *supra*, at p. 47.

II.

PUBLIC POLICY REQUIRES CONSTRUING §129 TO PERMIT AN APPEAL PRIOR TO THE ACCOUNTING ON THE NEWLY-DETERMINED QUESTION OF PATENT MISUSE.

The majority of the court below in deciding adversely to petitioner on the appeal of the June 5, 1945 order relied, with the exception of one lower court decision by the Ninth Circuit itself,[6] on cases outside of the patent

[6] This case, *Bowers* v. *E. J. Rose Co.*, 149 F. (2d) 612 (C.C.A. 9th, 1945), is not on the point here involved. In fact the opinion was written by Judge Denman who dissented in the instant case.

field. Judge Denman, in his dissent, pointed out that the majority had thus ignored the dominant public interest involved. This was particularly true in the misinterpretation and mis-application of this Court's recent decision in *Catlin* v. *United States*, 324 U.S. 229.

In the patent field, this Court has long been concerned with the monopolistic consequences of patent misuse. It has done what it has been able to do, to withhold the fruits of such abuse from persons acting contrary to the public interest or in violation of the anti-trust laws. *Cf. e.g., Keystone Driller Co.* v. *General Excavator Co.*, 290 U. S. 240; *Carbice Corporation of America* v. *American Patents Development Corporation*, 283 U.S. 27; *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488. The policy of this Court in recent years, it is submitted, has been to encourage resistance to unlawful extension of the privileges conferred by the patent law. The object has been to prevent unwarranted interference with normal competitive forces.

Resistance to improper claims of monopoly in a competitive field by virtue of patent protection is hampered and often rendered impossible by the great expense involved in contesting the validity of the patent said to dominate the field, or to attack its use on public policy and Sherman Act grounds. It has been generally conceded that patent litigation is expensive and that compensation for even a successful defendant in an infringement suit is wholly inadequate. Woodward, *A Reconsideration of the Patent System as a Problem of Administrative Law*, (1942) 55 HARV. L. REV. 950, 969 *et seq.* The line of least resistance is to accept a license on what-

ever terms one may be tendered or retire from the field, rather than undertake such an onerous burden of vindicating public policy.

One of the leading cases on patent accounting in the Ninth Circuit is *Dunkley Co. v. Central California Canneries,* 7 F. (2d) 972 (C.C.A. 9th, 1925). The Court of Appeals affirmed the District Court's finding of patent validity and infringement and filed its opinion on October 1, 1917 (247 Fed. 790). Almost eight years later, on September 14, 1925, the Court of Appeals affirmed the Master's Report on accounting, allowing a $12,000 fee to the Master, although plaintiff was only awarded $11,403.23 as profits and damages.

The policy of this Court in aiding what is essentially defense of the public interest at private expense can be implemented only by a furtherance of the Congressional effort to eliminate needless expense in patent litigation. The majority opinion below has struck a blow against that policy.

This broad policy in patent cases is negatived by the majority of the court below by applying this Court's opinion in the *Catlin case, supra.* It is submitted that this application is beyond the scope of the decision. The Court, in the *Catlin* case, was interpreting policy in a wholly unrelated field involving different statutory provisions. The condemnation of land under the eminent domain power will seldom result in an illegal condemnation, but will frequently result in hotly contested questions of just compensation. In such circumstances it is efficacious to postpone review until a final judgment on all matters has been entered. In keeping with this policy, under §128

of the Judicial Code, only "final decisions" in such cases are reviewable. Even in this field, the Court recognized that in the District of Columbia interlocutory decrees in condemnation suits are reviewable by virtue of the statute there prevailing permitting review of interlocutory orders. See 324 U.S. at 232, fn. 6. In the patent field there is a practical necessity, as has been seen, to avoid the expense of unnecessary accountings. In this entirely different setting, the application of the *Catlin* case is unwarranted.

It may be argued that permitting an appeal in the instant case invites the possibility of abuse by needlessly delaying the accounting. The very object of §129 is to permit the avoidance of an accounting until resolution of all questions on the merits makes it clear that such an accounting proceeding is absolutely required. However, a trial court is given discretion by §129 to permit the accounting to proceed while the appeal is pending. The accounting in the instant case is so proceeding. However, permitting an appeal in the instant case will mean that the question of patent misuse can be resolved long before the accounting proceeding can be terminated by a Master and reviewed by the courts. In the event that it should be found that patent misuse has been practiced, the accounting proceeding can be promptly terminated. The policy of §129 thus cannot be defeated by dilatory tactics, for the trial court reserves the power to expedite a case where dilatory tactics may be suspected by both permitting an immediate appeal and starting a simultaneous accounting proceeding.

The general policy of the law may be said to be one of expediting the termination of litigation. See, for exam-

ple, Federal Rule of Civil Procedure 73(a) adopted by this Court on December 27, 1946, shortening the period for filing a notice of appeal to the Circuit Court of Appeals from three months to thirty days.[7] This policy of expedition has even lead to permitting appeals on separate issues which can be successfully divorced from the rest of the proceeding pending below. *Reeves* v. *Beardall*, 316 U.S. 283. Without in any sense endorsing the practice of permitting appeals of separate issues, it may be categorically stated that there is no reason for ignoring the mandate of §129 permitting appeal of *all* issues other than the question of profits or damages in the very specialized patent field.

CONCLUSION

For the reasons stated it is respectfully urged that the judgment below be reversed.

Respectfully submitted,

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March 10, 1947

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[7] This step was taken on the recommendation of the Judicial Conference of Senior Circuit Judges. See *Report of Proposed Amendments to Rules of Civil Procedure for the District Courts of the United States*, June, 1946, at p. 95.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1946.

No. 755.

IRA J. McCULLOUGH, *Petitioner*,

v.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation, *Respondents*.

REPLY BRIEF FOR THE PETITIONER

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REPLY BRIEF FOR THE PETITIONER

It is unnecessary, in reply to the citation of cases by respondents, to point out that decisions which did not arise under Section 129 of the Judicial Code but under provisions quite different in purpose do not lend support to respondents' view of the meaning of Section 129. (Compare cases cited in Respondents' Brief, pp. 7-8.)

It is improper to draw an inference as to what the "object and policy" of Section 129 is by quoting language in *McLish* v. *Roff*, 141 U. S. 661 (Respondents' Brief, pp. 10-11). This case had nothing to do with Section 129 of the Judicial Code. It pertained to appeal of jurisdictional issues to this Court directly from the old circuit courts, district courts

and the United States Court in the Indian Territory. Nevertheless, from the *McLish* case, the respondents draw the conclusion that the "established object and policy" of Congress was to have "every matter in controversy in it decided by a single appeal." This is the language of the *McLish* decision. It would have been just as appropriate for the respondents to have cited *Catlin* v. *United States*, 324 U. S. 229, as did the majority below. Neither case has anything to do with the "object and policy" of Section 129 and serves only to confuse the issue presented.

Respondents' statement that Section 129 provided for a "single appeal" which is exhausted thirty days after entry of a decree final except for an accounting is question-begging. The point here is that under well-established law an issue of patent misuse, in the discretion of the court, may be raised at any stage in a case. The Court of Appeals, after remand from this Court, believed that it was appropriate to have the issue of patent misuse litigated in this case prior to the time that it might have been raised during the accounting. The District Court was of like view and entertained the matter, even to the point of offering both parties the opportunity to introduce any additional evidence that they thought necessary to resolve the question. Under these circumstances the case was finally disposed of, except for the accounting, only when the order of June 5, 1945 was entered. The proceeding, had, in effect, been reopened. The appeal was taken within thirty days from this order terminating the last phase of the proceeding prior to the accounting. Under these circumstances it clearly was within the policy of Section 129 to avoid the necessity of completing a long and expensive accounting prior to determination of the issue of patent misuse. Certainly there was nothing in the decision of this Court when the instant case was last before it which barred litigation of the issue of patent misuse below. As this Court has stated, in *Marconi Wireless Telegraph Co.* v. *United States*, 320 U. S. 1, 47, in the discretion of the trial court an issue of patent misuse

may be raised at any time, even during the accounting. The desire of this Court to have the issue raised and litigated below before passing on it itself, does not mean, it is respectfully submitted, that this Court in any sense intended to prevent the issue from being raised and litigated below.

The argument of respondents that the 1927 amendment to Section 129 permitted an appeal only from a "decree" which was final except for an accounting, and that in the instant case the June 5, 1945 decree or order was designated an "order," can be summarily answered. In the first place, such words are used interchangeably and the designation of a decision as an "order" rather than a "decree" would certainly have no legal consequences. To carry respondents' argument to its logical conclusion would mean that if a trial court always designated its judgments by the term "order," rather than "decree," Section 129 would be nullified since no appeal would be possible prior to the accounting. What the District Court did cannot be nullified by any attempt to split hairs over the designation of its decision as an "order," rather than a "decree." The effect of the legal decision is no different irrespective of the term used, and the right to an appeal is therefore unaffected. In *Commissioner* v. *Estate of Bedford*, 325 U. S. 283, this Court held that an "Order for Mandate" constituted a judgment, rather than a document entitled "Opinion." It was seriously urged that the latter was itself the judgment. It need hardly be added that if the title "Order for Mandate" did not prevent the instrument from being a judgment, a document entitled "Order" is not prevented from being a decree within the meaning of Section 129.

As to the merits, it is enough to say that the Solicitor General, when this case was last before this Court, filed a brief *amicus* supporting the petitioner's contention that there was patent misuse in the instant case. The nature of the license agreement itself, as an integrated document, establishes such misuse. The license agreement was in evidence and consequently petitioner did not feel it neces-

sary to take advantage of the opportunity offered by the District Court to introduce additional evidence. It may also be noted that the respondents likewise introduced no further evidence. The agreement of the parties that the record was sufficiently complete does not change the conclusion that the District Court tried the issue of patent misuse and even though additional testimony was not taken made new findings of fact and conclusions of law. Under these circumstances Judge Denman rightly concluded that the trial court had correctly followed the mandate of the Circuit Court of Appeals and had reopened the proceeding.

Respectfully submitted,

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Petitioner,

vs.

KAMMERER CORPORATION, a Corporation, and BAASH-ROSS TOOL COMPANY, a Corporation,

Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

Statement of the Case.

Respondents filed two suits in the United States District Court for the Southern District of California, alleging patent infringement by your petitioner herein. These suits were consolidated for trial. Interlocutory judgments were entered therein on June 28, 1941 [R. III, pp. 118-122, 123-6]. From these interlocutory judgments petitioner appealed to the Circuit Court of Appeals for the Ninth Circuit. That Court, on October 18, 1943, entered its decree of affirmance, thereafter withholding its mandate until this Court had determined the writ of certiorari granted by

this Court. In dismissing the writ of certiorari, this Court said:

> "Thus the only question for which we granted certiorari is one not properly raised, litigated or passed upon below. (Citing cases.) The grounds asserted for the allowance of certiorari are inadequately supported by the record, and the writ is therefore dismissed."

Thereafter, petitioner filed in the Circuit Court of Appeals an alternative "Motion for Modification of Appellate Court Decree or for Permission to Apply to the District Court." After argument, the Court of Appeals entered its *per curiam* order (148 F. (2d) 525) by which:

> "Without passing upon the merits of appellant's contention respecting the effect on the public interest of appellees' license agreement, and without altering our judgment affirming the judgments of the District Court as to the validity of the patent and its infringement, it is ordered that the judgment of this court be otherwise amended to provide that the cause be remanded to the District Court and that that court may entertain a motion or motions based upon such contention to modify or set aside its order or orders for such damages and accountings thereof, and take such action thereon as it may determine."

Pursuant to this permission, petitioner filed a "Motion for Modification of Interlocutory Judgments, to Stay Accounting, and for Final Judgments Dismissing Complaints" [R. I, pp. 2-4]. Petitioner presented to the District Court a proposed "Supplemental Interlocutory Judgment" [R. I. pp. 12-15].

Exercising the permission granted to it by the foregoing order of the Court of Appeals, the District Court heard

and denied this Motion [R. I, p. 26] and entered the following order: "Motion for entry of Supplemental Interlocutory Judgment is denied, as the motion to modify the judgment was denied, the original judgment stands" [R. I, p. 15]. To comply with a holding of the Court of Appeal in *Mateas v. Fred Harvey,* 146 F. (2d) 989 (C. C. A. 9), the District Court made Findings of Fact and Conclusions of Law [R. I, pp. 16-26.] No new or further evidence was offered [R. I, pp. 18-19], and except for the record of motions and proceedings had in the case, the record stands identical with the record upon which this Court dismissed certiorari.

From this denial of petitioner's motions, petitioner gave Notice of Appeal to the Circuit Court of Appeals. By a divided court the Circuit Court of Appeals dismissed this appeal for want of jurisdiction, the appeal order not being from a final decree within the purview of *§227a of the Judicial Code.*

After giving notice of such appeal, petitioner then filed in the Court of Appeals a "Motion to Modify or Set Aside Decree, Recall Mandate and Determine Patent Misuse" [R. VII, pp. 1170-1]. The grounds of this Motion were that the Court of Appeals in its opinion filed March 14, 1945 [R. VII, pp. 1165-7] and Decree [*Id.*, pp. 1168-9] "intended to affirm the District Court only as to patent validity and infringement *leaving open* the question of patent misuse and right to accounting which question this Court intended that the District Court should initially determine, *meanwhile keeping the appeal open so this Court might review* the decision of the District Court in that respect, and finally enter its decree on all defenses."

In petitioner's points and authorities in support of the motion, petitioner urged that:

> "The procedure which this Court apparently intended to follow as manifested in its opinion of March 14, 1945 (148 F. (2d) 525) was to hold the appeal open until the question of patent misuse could first be determined by the District Court. * * *" [R. VII, p. 1171.]

The decree of the Court of Appeals [R. VII, pp. 1168-9] contains no words reserving jurisdiction of the case. Respondents' attorney wired the Court of Appeals agreeing to submission of this motion without argument, stating:

> "* * * Will you please advise Court that my position on motion is that if the Court intended by its original order to reserve jurisdiction on former appeal to review District Court decision on alleged patent misuse defense then Appellee has no objection to court so holding. However, in absence of any indic(a)tion in original order to that effect, I am of the opinion that Court has now no power to entertain motion to recall mandate. (Citing cases.) * * *" [R. VII, p. 1176.]

Thus the significance is clear that the Court of Appeals' order denying such motion is based upon its construction of its decree [R. VII, pp. 1168-9] that it did not intend to reserve jurisdiction on the case so that it "might review the decision of the District Court in that respect" (alleged patent misuse defense) as asserted by petitioner [R. VII, pp. 1170-1]; that it was not the intention of the Court of Appeals to "hold open the appeal until the patent misuse could be first determined by the District Court" [R. VII, p. 1171]; and that the Court of Appeals did not order the "reopening of the case" (Pet. p. 7).

Summary of Argument.

The jurisdiction of the Court of Appeals being statutory, no statute authorized the Court of Appeals to consider the appeal.

The Court of Appeals having affirmed the interlocutory decrees and entered its decree of affirmance without reserving jurisdiction of the case, the Court of Appeals lacked jurisdiction of the case to hear or act upon petitioner's motion.

No misuse of the patent is established by the record in this case.

Petitioner's Appeal to the Court of Appeals Was Without Statutory Authorization.

The Court of Appeals lacked authority to hear or determine petitioner's appeal. The petition herein (Pet. pp. 3-4) asserts jurisdiction of the appeal by the Court of Appeals under Section 129 of the Judicial Code, 43 Stat. 937, 44 Stat. 1261, 28 U. S. C. §§277, 277a. The Reilly and Stone patent expired April 18, 1944 (323 U. S. 328), and the injunction expired therewith.

No new decree, final or otherwise, was entered by the District Court. "A denial of a motion to modify a judgment and a motion to dismiss a complaint is not a final decree within §227a" [Majority Opinion Court of Appeals, R. II, p. 62; 156 F. (2d) 345]. The District Court specifically refused to enter "a supplemental interlocutory judgment" [*Id.*] or to modify the affirmed judgment, or to dismiss the suits [R. I. p. 26]. "* * * the original judgment stands" [Order District Court, R. I. p. 15]. This judgment was entered June 28, 1941 and petitioner appealed to the Court of Appeals therefrom. Petitioner "as-

signed no error with respect to" the contended illegal use of the patent, and the Court of Appeals did not consider the question (323 U. S. 328). The statute does not authorize a second appeal. Furthermore, petitioner's appeal taken July 3, 1945 [R. I, pp. 31, 34] was not within thirty days "from the entry of such decree," as required by §227a.

There is no conflict of decision between *Catlin v. United States*, 344 U. S. 229, and the decision of the Court of Appeals here dismissing the appeal for want of jurisdiction.

The petition herein erroneously asserts that the Court of Appeals "has decided an important question of federal law" (Pet. p. 9). Precisely what is such question remains in doubt. Is it the question of the Court of Appeals' jurisdiction to entertain the appeal? Or is it the asserted defeating of "the policy of this Court in facilitating resistance to patent abuse"? Without jurisdiction in the Court of Appeals of such appeal, such court was without jurisdiction of the case. Having entered its decree [R. VII, pp. 1168-9] and issued its mandate of affirmance thereon, without reserving jurisdiction of the case, such court could not be reinvested with jurisdiction of the case by petitioner's motion. The Court was without power to recall its mandate. (*Waskey v. Hammer*, 179 Fed. 273 (C. C. A. 9); *Miocene Ditch Co. v. Campion M. & T. Co.*, 197 Fed. 497 (C. C. A. 9); *National Biscuit Co. v. Kellogg*, 96 F. (2d) 873 (C. C. A. 3); *American Safety Razor Corp. v. International Safety R. Corp.*, 61 F. (2d) 479 (C. C. A. 3); *Casey v. Sterling Cider Co.*, 15 F. (2d) 52 (C. C. A. 1); *Hart v. Wiltsee*, 25 F. (2d) 863 (C. C. A. 1).).

Likewise the Court of Appeals was without jurisdiction of the case to hear and determine petitioner's "Motion to Modify or Set Aside, Recall Mandate and Determine Patent Misuse" [R. VII, pp. 1170-71].

The Court of Appeals Had No Jurisdiction of the Case and Properly Denied Petitioner's Motion.

Petitioner, pursuant to the permission of the mandate of the Court of Appeals, moved the District Court to modify the interlocutory judgments, to stay the accounting and for final judgments dismissing the suits with costs to defendants. Notwithstanding that such motion [R. I, pp. 2-4] did not comply with the requirements of R. C. P. Rule 59 as a motion for new trial, the District Court offered [R. I, p. 19] petitioner a full opportunity to present any additional evidence in support of the motion. No additional evidence was produced. The District Court made findings of fact and conclusions of law [R. I, pp. 20-26] to comply with the possible intendment of the decision of the Court of Appeals regarding findings upon motion (*Mateas v. Fred Harvey*, 146 F. (2d) 989). The District Court found that "By this arrangement and by the license agreement, the Kammerer Corporation, the owner of the inventions and patents, and Baash-Ross Tool Company engaged in a common enterprise in the nature of a joint venture in the exploitation of the use of the Kammerer and Reilly and Stone inventions for their mutual advantage" (Finding No. 1); that "It is not established that the covenants contained in Paragraph 3 (of the license agreement) have been or are detrimental to the public interest" (Finding No. 6), or that "Plaintiffs have attempted to fix prices upon anything not covered by the patent in suit" (Finding

No. 7); that the mutual covenants of paragraphs 11 and 12 of the license agreement were "proper and such only as to offer fair protection to the parties in their common enterprise. Such covenants merely bound the parties to a course of conduct corresponding to that required of the parties to a common enterprise and which if not expressed would be implied. There is no restriction upon free competition. Competitors of Baash-Ross Tool Company were free to sell, lease or otherwise dispose of their fishing tools to anyone upon any terms or prices. Competitors were free to compete for the customers of Baash-Ross Tool Company by offering the use of their tools at lower prices or on better terms than such customers secured from Baash-Ross Tool Company. These covenants were not in restraint of trade or illegal" (Finding No. 8); that it is not established that such covenants have been or are detrimental to the public interest (Finding No. 9), or that plaintiffs have attempted to suppress the use of competing devices (Finding No. 10); or ever attempted in any manner whatsoever to restrict the public use of non-infringing competitive devices (Finding No. 11), or that the asserted restrictive covenants in the license agreement are or have been in any manner detrimental to the public interest (Finding No. 12); and that "Analyzing the license agreement on its face, the covenants are all of a character which the owner of a patent has a right to enter into with one whom he makes an exclusive licensee, aiming at the exploitation of the invention and were reasonably necessary to protect the mutual interests of the parties engaged in the common enterprise" (Finding No. 15). The motion was addressed to the discretion of the District Court. Its denial necessarily followed the findings of the District Court.

No Misuse of the Patent Is Established by the Record in This Case.

The patent having long since expired, no question of public interest remains. Respondents' right to recover from petitioner for his infringement arises under Sec. 4921 R. S. (U. S. C. Title 35, §70), as amended by Public Law 587—79th Congress, approved August 1, 1946. A charge that a plaintiff has engaged in restraint of the trade, even if true, is no defense to an action brought by plaintiff to enforce a statutory right.

In view of the former decision of this Court and the findings of the District Court, no misuse of the patent is established. The sole purpose and object of the license agreement was to afford protection to the parties interested in the ownership of the Reilly and Stone invention. The law does not forbid or render illegal the making of normal and usual contracts by which persons may seek to enhance their trade and make their occupations gainful. The license agreement contains nothing which would operate to the prejudice of the public interest or in restraint of trade.

By the license agreement respondents engaged in a common enterprise in the nature of a joint venture. It was entirely competent for the persons interested in the Reilly and Stone invention to enter into such an arrangement for the manufacture and operation of the tool and to stipulate that one of them should alone conduct the business. It was a common and not an illegal stipulation in such an arrangement to provide that neither party shall compete with the venture for his own account. Indeed such a stipulation is implied if not expressed. The stipulation not to compete is also based upon the duty of the exclusive licensee to ex-

ploit the invention in good faith. Such a stipulation does not tend to restrain trade; to the contrary, it precludes suppression of the invention and assures the public of the benefit of its use.

The grant of the license to manufacture and use, but not to sell, was entirely proper. The object of these provisions of the license was not to impose any hardship upon the public but was merely to provide for the manner in which Baash was to conduct the business. The Reilly and Stone tool was a fishing tool. There is a use for a tool of this kind only if and when something goes wrong during the drilling of a well. It has never been the custom in the oil industry to buy special fishing tools. The custom is when such a fishing tool is needed to send to a service concern maintaining a stock of such tools for the particular tool required and a man skilled to operate it. In contracting for the manufacture and use, but not the sale, of the Reilly and Stone tool, the parties were following the usual and ordinary practice in the trade. Such a contract is not illegal. In view of the nature of the Reilly and Stone tool, to have deprived the inventors of sharing in the use of the tool, would have precluded them from obtaining an adequate reward for their invention. It is well settled that an inventor may look to the use of his invention as distinguished from its manufacture or sale for his reward. Section 4884 of the Revised Statutes (U. S. C. Title 35, Sec. 39) expressly provides for this. The exclusive rights to make, use and sell granted by a patent are in their nature independent of each other. It is optional with the owner of the patent to divide them, and to bestow the three, or any two of them, on the same licensee.

The parties to the license agreement were entitled to set the price at which the Reilly and Stone tool would be fur-

nished and operated. The licensor was to receive "a royalty of fifty percent (50%) of the gross earnings" [R. I, p. 6] and was therefore equally interested with the licensee in the amount charged. To protect the licensor and licensee it was necessary to set the price. Doing so in no manner tended to create a monopoly or restrict competition. This was merely an instance of the parties to a common venture setting the price for their wares. There is no question here of competitors conspiring between them to fix prices under the guise of a patent or of a patent holder offering to fix prices as an inducement to the trade to recognize his patent and take licenses under it.

There is nothing in the license agreement attempting to extend the scope of the patent monopoly. No restrictions whatever are imposed upon those who may patronize the patented invention, conditioning the use of the invention upon anything of any nature. The public may simply rent the use of the tool and the services of the trained operator to run it. There has been no misuse of the patent and the patent privilege has not been used contrary to the public interest. The decisions of this court holding that suit may not be maintained for infringement of a patent that has been misused or that has been used contrary to the public interest are therefore not applicable here.

It is respectfully submitted that the petition should be denied.

Respectfully submitted,

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KAMMERER CORPORATION, a Corporation, and, BASH-ROSS TOOL COMPANY, a Corporation,

Respondents.

RESPONDENTS' BRIEF.

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RESPONDENTS' BRIEF.

Statement of the Case.

In May, 1944, this Court granted certiorari to the Circuit Court of Appeals for the Ninth Circuit upon the representation by Petitioner herein that these consolidated cases presented a question of restraint of trade and violation of Anti-Monopoly laws.

After full argument of such representation on the merits, this Court filed its *per curiam* opinion in which it found that:

> "Thus the only question for which we granted certiorari is one not properly raised, litigated or passed upon below." (Citing cases.) "The grounds asserted for the allowance of certiorari are inadequately supported by the record, and the writ is therefore dismissed." (323 U. S. 327-8-9.)

After this dismissal Petitioner first moved in the Court of Appeals

> "for a modification of its decree herein, dated October 18, 1943, affirming the District Court in finding the patent in suit valid and infringed, by eliminating from such decree any affirmance of paragraphs VI and VII of the two District Court Interlocutory Judgments [R. 121-122, 126], providing for payment by defendant to plaintiffs of profits and damages for alleged patent infringement, with costs of suit.
>
> "The grounds for this motion are that plaintiffs (appellees here) have used the patent in suit contrary to public policy and in restraint of trade, for which reasons they come into a Court of Equity with 'unclean hands' and are not entitled to an accounting of profits and damages for alleged patent infringement.
>
> * * * * * * * *
>
> "In the alternative, appellant moves for permission to apply to the District Court to reform said Interlocutory Judgments and stay the accounting, or for such other and different relief as may seem proper." [1102.3a]

On March 14, 1945, the Court of Appeals granted Petitioner's alternative motion "that permission be granted him to move in the district court below that such relief be denied appellees." [1166-7.]

Thereafter, Petitioner filed in the District Court his motion

> "for modifications of its Interlocutory Judgments herein, dated June 28, 1941, in finding the patent in suit valid and infringed, by eliminating from each

of such Interlocutory Judgments paragraphs VI and VII thereof [R. 121, 122, 125, 126, providing for accountings of and for payment by defendant to plaintiffs of profits and damages for patent infringement, with costs of suits] for a stay of the accountings, and for Final Judgments providing that the plaintiffs have used the patent in suit contra to the public interest, and that the complaints be dismissed with costs to defendant.

"The grounds for this motion are that plaintiffs have used the patent in suit contrary to the public interest and in restraint of trade, for which reasons they come into a Court of Equity with 'unclean hands' and are not entitled to accountings of profits and damages for patent infringement." [I, 2-4.]

The District Court denied this motion. [I, 15-16.] The record contains a proposed "Supplemental Interlocutory Judgment" [I, 12-15] presented by Petitioner, upon which is found the District Court's Order: "Motion for entry of Supplemental Interlocutory Judgment is denied, as the motion to modify the judgment was denied, the original judgment stands." [I, 15.]

Notwithstanding the denial of Petitioner's motion, in order to comply with his interpretation of the decision of the Court of Appeals in *Matcas v. Fred Harvey* (No. 10783, 146 F. (2d) 989, p. 146), the District Court made Findings of Fact and Conclusions of Law [I, 20-26], although the District Court did "not think it is consistent with the theory of pleadings to require findings in the case of a non-suit * * *." [I, 46.] Not only did the District Court refuse to enter any judgment, or to modify the judgment entered *June 28, 1941*, but clearly indicated

that he made these Findings of Fact and Conclusions of Law only, and under protest, to comply with the intent of this *Mateas v. Fred Harvey* decision of the Court of Appeals of his circuit.

Petitioner did not appeal from a new judgment or decree. In his notices of appeal [I, 31, 34] he stated that he "hereby appeals to the Circuit Court of Appeals for the Ninth Circuit from the Final Order entered in this action on the 5th day of June, 1945." By these notices of appeal, Petitioner recognized the fact that (1) his motion was denied; and (2) that the District Court refused to enter a new decree, or to modify the decrees of *June 28, 1941*. The majority opinion of the Court of Appeals in dismissing the appeals for want of jurisdiction states:

> "Appellant contends that jurisdiction of this court to entertain said appeal is found in §129 of the Judicial Code, as amended, (28 U.S.C.A., §227(a)), which reads:
>
> " 'When in any suit in equity for the infringement of letters patent for inventions, a decree is rendered which is final except for the ordering of an accounting, an appeal may be taken from such decree to the circuit court of appeals: Provided, that such appeal be taken within thirty days from the entry of such decree or from February 28, 1927; and the proceedings upon the accounting in the court below shall not be stayed unless so ordered by that court during the pendency of such appeal.'
>
> "We do not agree. Said section has no application since the order appealed from is not a decree, final or otherwise. A denial of a motion to modify a judgment and a denial of a motion to dismiss a

complaint is not a final decree within §227(a). It is true that an 'order' can be a 'judgment', and it is equally true that it is the court's action which determines the character of its decision. But here the District Court specifically refused to enter a 'supplementary interlocutory judgment'. Its order reads:

"'Motion for entry of Supplemental Interlocutory Judgment is denied, as the motion to modify the judgment was denied, the original judgment stands. L.R.Y.'

"Appellant appealed from the interlocutory judgment of June 28, 1941, under Judicial Code, §129, as amended. No further appeal under this section is open to him because the interlocutory judgment appealed from stands and is still 'final except for the order of an accounting'.

"The order of June 5, 1945, denying the motion to modify the judgment was not a 'final decision' within §128 of the Judicial Code, nor was the order denying the motion to dismiss a final judgment so as to give us jurisdiction of the attempted appeal from said order." [II, 60-62.]

Petitioner sought the grant by this Court of certiorari not only to review this last decision of the Court of Appeals with respect to jurisdiction of that court, but also prayed certiorari to again present the same asserted misuse of the patent in violation of the Anti-Monopoly laws, which this Court in its previous per curiam opinion stated was "inadequately supported by the record".

With the foregoing exceptions, *i. e.*, the permission granted the District Court that it "may entertain a motion or motions, * * * and take such action thereon

as it may determine", and the denial of the court of such motion, including its recorded refusal to enter any new judgment or decree, the record herein stands as it stood when this Court dismissed the first Writ of Certiorari herein.

Petitioner had appealed from the Interlocutory Judgments of June 28, 1941. The Court of Appeals had jurisdiction of such appeals by virtue of Sec. 129 of the Judicial Code. (28 U.S.C.A., Sec. 227, as amended). In taking his appeals therefrom Petitioner did not include in his "Statement of Points" rule 75, R.C.P., sub-division (d), "a concise statement" of any statement or reference whatsoever to the defense or "question of patent misuse", nor did Petitioner therein, as required by Rule 19 of the Court of Appeals of the Ninth Circuit, refer to this alleged question or defense of patent misuse as one of the points upon which Petitioner intended to rely, [R. 732-38]; nor was such question or defense either remotely or inferentially referred to or specified in Plaintiff's Brief on said appeals, in the Specifications of Error of Petitioner's Brief as required by said Rule 19, or stated therein as one of "the questions involved". (Rule 20, sub-division (c) of said Court.) A question which is inherent in the question of jurisdiction under consideration by this Court is: Does the question of patent misuse remain in the case or was it waived and barred by Petitioner's failure to raise and rely thereon in its said statutory appeals? In other words, having waived such defense in its statutory appeals, can Sec. 129 (Sec. 227, as amended) be interpreted to authorize a second appeal to raise a question waived by Petitioner upon his statutory appeal?

Jurisdiction of the United States Circuit Court of Appeals.

"The appellate jurisdiction in the Federal system of procedure is purely statutory. American Constr. Co. v. Jacksonville T. & K. W. R. Co., 148 U. S. 372." (*Heike v. U. S.*, 217 U. S 423) "Congress rarely confers jurisdiction on a court by implication. When it does, the implication, to be effective, must be not only clear but necessary." (*Emlenton Refining Co. v. Chambers,* 14 F. (2d) 104.) The history of Sec. 129 of the Judicial Code excludes any implication that by the Act of February 28, 1927, C. 228, 44 Stat. 1261, Congress intended that the denial of a motion to set aside or amend a decree "which is final except for the ordering of an accounting", which had been made in a patent infringement case and which had been appealed under said Sec. 129, as amended, should constitute an appealable new decree. Congress more than once amended Sec. 129 (Sec. 227) to extend the right of appeal thereunder. Such Section at no time was limited to a decree in a suit in equity for the infringement of Letters Patent for inventions. It was and is applicable to any granting, continuing, modifying, refusing or dissolving an injunction "by an interlocutory *order* or decree", or to the denial of an "*application* to dissolve or modify an injunction", or an interlocutory *order* or decree appointing a receiver, etc. In its original form, as enacted, said Section was adjudged not to grant the right to an appeal from the denial of petitions to vacate and set aside orders appointing a receiver of a railroad, the authorizing of the issuance of receiver's certificates and also praying that the receiver be enjoined and restrained from receiving, taking or managing the railroad, etc.,

(*Fidelity Insurance, Trust & Safe-Deposit Co. v. Dixon*, 78 Fed. 205, C.C.A. 7); it was likewise adjudged that after the expiration of the thirty days from the order granting the injunction, a party could not acquire a new right of appeal by the filing of a motion to dissolve the injunction and an order of the court denying the motion, (*Dreutzer v. Frankfort Land Co.*, 65 Fed. 642, 644, C.C.A. 6; *Baker v. Walter Baker & Co., Ltd.*, 83 Fed. 3, C.C.A. 4; *Gliuski v. U. S.*, 93 Fed. (2d) 418, 419, C.C.A. 7; *Smith v. U. S.*, 52 Fed. (2d) 848, C.C.A. 7).

The history of Sec. 129 and the various extensions of the right of appeal thereunder may be readily ascertained by reference to the following acts: February 18, 1895, C. 96, 28 Stat. 666; June 6, 1900, C. 801, 31 Stat. 660; Apr. 14, 1906, C. 1627, 34 Stat. 116; Mar. 3, 1911, C. 231, Sec. 129, 36 Stat. 1134; Feb. 13, 1925, C. 229, Sec. 1, 43 Stat. 937.

Sec. 129, unlike the amendment thereto by the addition of Sec. 227(a), is not limited to a decree, either final or interlocutory. It applies to any interlocutory order or decree of the kind specified, whereas, the amendment (Sec. 227(a)) makes no reference whatsoever to any order as being appealable. "When in any suit in equity for the infringement of letters patent for inventions, a *decree* is rendered which is final except for the ordering of an accounting, an appeal may be taken from such decree to the Circuit Court of Appeals: Provided, that such appeal be taken within thirty days from the entry of such decree or from February 28, 1927; * * *"

It cannot be said that Congress intended the word "decree", as thus used in this amendment, should be interpreted to include all orders. Congress had been repeatedly called upon to amend Sec. 129 to include both the granting and the denying of many orders.

The amendment (Sec. 227(a)) to Sec. 129 was enacted by Congress to cover a specific situation. (See House Report No. 1890 on House Resolution 11840.) Many patents have expired during the pendency of a suit and prior to the interlocutory decree finding the patent valid and infringed. As no injunction could issue and the decree was interlocutory only, the Defendant was relegated to an appeal after the final decree. See report of Mr. Metcalf from the Committee of Patents to the Senate to accompany Senate Bill 4957, wherein it was pointed out that:

> "If the patent expires before the entry of the decree by the Lower Court so that no injunction is ordered, there can be, under the present statutes, no appeal until after the accounting is completed and a final decree entered. If then on appeal the Court of Appeals determines that the patent is invalid or is not infringed, the whole expense of the accounting is wasted.
>
> "This Bill, which is a duplicate of House Bill 11,840, has been prepared for the purpose of permitting an appeal to be taken immediately in those cases where the patent has expired before the decree is entered in the Trial Court. The Honorable Evan A. Evans, one of the judges of the Circuit Court of Appeals of the 7th Circuit, was interested in this Bill and recommends it. There is no opposition to the Bill anywhere. It has approval of the entire patent bar and of all of the Federal judges."

Judge Rich, in *Brick v. A. I. Namm & Sons, Inc.*, 21 Fed. 179-180, points out that it was Congress' intention to provide an appeal under these particular conditions.

> "Where, however, no question of injunctive relief could be decided because the patent had expired, there was nothing left to be decided but the accounting, and for all practical purposes such decree was final, yet there was no appeal provided for by statute, except and after the accounting had been completed and a final decree thereon entered. Thus, in such cases, although the higher court should subsequently decided that the patent had been invalid, or had not been infringed, nevertheless such question could not be brought before the court until the whole expense of possibly an extensive accounting had been borne and paid for, in such cases unnecessarily. 'No appeal can be taken by a defendant from an interlocutory decree, which directs an accounting of profits and damages, but does not order an injunction.' Walker on Patents (5th Ed. 1923), Sec. 644a, p. 720; Lederer v. Garage Co., *supra*.
>
> "This difficulty has now been overcome by this new law, and an appeal has now been provided, in order to avoid in a proper case this unnecessary expense of an accounting, where no injunctive relief is or can be granted. The accounting may be stayed."

To hold that the District Court's denial of Petitioner's motion (1) to enter a new interlocutory decree, or (2) amend the interlocutory decrees of June 28, 1941, or (3) to dismiss the cases, constituted a final decree, under the amendment (Sec. 227(a)) to Sec. 129, "would render the Act under consideration inconsistent with this long-established object and policy. More than this, it would

defeat the very object for which the Act was passed." (*McLish v. Roff*, 141 U. S. 661.)

Such "established object and policy" was, as stated in the decision just referred to, "to save the expense and delays of repeated appeals in the same suit, and to have the whole case and every matter in controversy in it decided by a single appeal." The "difficulty" pointed out by Mr. Metcalf and Judge Inch was overcome by Congress providing a right of appeal, if exercised within thirty days. Such right of appeal was exhausted by the first appeals taken by Petitioner from said Interlocutory Decrees. The fact that Petitioner did not raise as a ground of appeal its present contention of patent misuse and violation of the Anti-Monopoly laws cannot justify a second appeal from the same Interlocutory Decrees. The amendment (Sec. 227(a) to Sec. 129) contains nothing granting Petitioner a second right of appeal; it is limited to a single right to be exercised within thirty days. In its per curiam opinion dismissing the previous certiorari in these cases, this Court pointed out that Petitioner's Amended Answer "made no mention of the restrictions contained in the license agreement * * *. On appeal to the Circuit Court of Appeals Petitioner assigned no error with reference to them and the Circuit Court of Appeals did not consider them * * *. * * * The grounds asserted for the allowance of certiorari are inadequately supported by the record. * * *." (323 U. S. 328-9.)

It was early established by this Court that no appeal lies from the refusal of the Court below to open a former decree. (*Brockett v. Brockett*, 2 Howard 228; *McMicken v. Perin*, 18 Howard 507); that the granting or refusal, absolute or conditional, of a rehearing in

equity as of a new trial at law, rests in the discretion of the Court in which the case has been heard or tried, and is not a subject of appeal. An appeal will not lie from a refusal to open a prior decree and grant a rehearing; nor from a refusal to open a judgment. (*Willis v. Davis*, 184 Fed. 889, C.C.A. 6).

The dissenting opinion of Judge Denman [II, 63-65] is predicated upon the statement therein that:

> "The district court entertained a motion for the decision of that dominant issue and its adverse decision adjudicated it finally, except for an accounting. Its order was a final decision, except for an accounting. There was nothing else for the lower court to do.
>
> "I dissent from the holding that the denial of that motion is not a final decision on the dominant issue because it was presented in such a motion. This is a clear case of obscuring in the form the essence of what, under our order, the lower court undertook and did." [II, 64; 156 Fed. (2d) at 346.]

It is to be noted that Judge Denman ignores the fact that the amendment (Sec. 227(a)) makes no reference whatsoever to a "decision" or a "final decision". This amendment grants a right of appeal only from a "decree" which is final except for the ordering of an accounting. In 1941, the District Court entered such decrees in these cases. On July 11, 1941, Petitioner filed his Notices of Appeal therefrom. These appeals were determined adversely to Petitioner, the Court of Appeals affirming such decrees. The right of Petitioner to appeal from the order of the District Court denying Petitioner's motion to vacate these decrees, etc., is not determined by the mere

form of the proceeding. The question to be determined is what right of appeal has Congress provided. Whether upon appeal from the final decrees in these cases, Petitioner may still raise this purported defense is not before this Court at this time. As said in the majority opinion of the Court of Appeals [II, 61; 156 Fed. (2d) 345]: "* * * the order appealed from is not a decree, final or otherwise. A denial of a motion to modify a judgment and a denial of a motion to dismiss a complaint is not a final decree within §227(a)." It was not the purpose or intent of Congress to abrogate this rule or decision. It provided for an immediate appeal (within thirty days) from such a decree. It did not provide in such amendment (Sec. 227(a)), as was provided in original Sec. 227 (Sec. 129, Judicial Code), an appeal from an order granting or denying, dissolving, etc.

The right of appeal granted by Sec. 227(a) does not depend upon any dominant issue. Congress' purpose and intent by such enactment created an exception to its long-established policy that all litigable questions arising in a case should be disposed of in a single appeal. By such amendatory statute (Sec. 227(a)), and for the sole purpose hereinbefore stated, an appeal in patent infringement cases was provided from "a decree which is final except for the ordering of an accounting," "* * * provided such appeal be taken within thirty days from the entry of such decree * * *" In construing such statute, it would be no more correct to interpolate therein a dominant issue respecting patent misuse or Anti-Monopoly law violation than to interpolate any other defense. This Court denied Petitioner's Petition for Certiorari to review the second question presented in the Petition (Pet. p. 2),

i. e.—whether Respondents herein had illegally misused the patent so as to bar an accounting in this suit. Respondents' patent expired prior to this Court's dismissal of the first Writ of Certiorari herein. This defense or issue had not been properly raised, litigated or passed upon by the District Court or the Court of Appeals; and the grounds for the allowance of certiorari were not adequately supported by the record. The Court of Appeals after hearing full argument of Petitioner's Motion for modification of its decree, etc. [1102-04], merely granted Petitioner's alternative motion to relieve the District Court from the binding effects of its mandate, and permitted the District Court at its discretion to hear the motion. Petitioner did not move in the District Court to amend its Answer,* did not move for a new trial or rehearing, declined to introduce any evidence in an attempt to show that any restraint resultant from the restrictions contained in the license agreement unreasonably suppressed competition. The case as presented to the Court of Appeals contained nothing new in the record except Petitioner's motion addressed to the discretion of the District Court, the District Court's denial thereof and the Findings of Fact and Conclusions of Law made by the District Court to comply with the *Mateas v. Fred Harvey* decision if the Court of Appeals determined it was applicable. Upon this record, Respondents urge that this Court's dismissal of the first Writ of Certiorari ended the case, except for the accountings ordered by the original interlocutory decrees. The mandate of this Court re-

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*After the District Court had orally denied petitioner's motion, petitioner orally moved for permission to amend its answer, I-50.

manded the cause without direction to the lower court. There was no need of such direction. The interlocutory decrees stood affirmed. The only thing left was the accounting.

The record in this case does not establish the dominant issue referred to by Judge Denman. There has been no litigation of such issue. In *United States v. Addyston Pipe & Steel Co.*, 85 Fed. 271, C.C.A. 6, the then Circuit Judge (later Chief Justice) Taft rendered an opinion oft referred to as a classical statement of the law with reference to covenants in partial restraint of trade, saying:

> "For the reasons given, then, covenants in partial restraint of trade are generally upheld as valid when they are agreements (1) by the seller of property or business not to compete with the buyer in such a way as to derogate from the value of the property or business sold; (2) by a retiring partner not to compete with the firm; (3) by a partner pending the partnership not to do anything to interfere, by competition or otherwise, with the business of the firm; (4) by the buyer of property not to use the same in competition with the business retained by the seller; and (5) by an assistant, servant, or agent not to compete with his master or employer after the expiration of his time of service. Before such agreements are upheld, however, the court must find that the restraints attempted thereby are reasonably necessary (1, 2, and 3) to the enjoyment by the buyer of the property, good will, or interest in the partnership bought; or (4) to the legitimate ends of the existing partnership; or (5) to the prevention of possible injury to the business of the seller from use by the buyer of the thing sold; or (6) to protection from the danger of loss to the employer's business

caused by the unjust use on the part of the employe of the confidential knowledge acquired in such business."

In the absence of any proof that any restriction contained in the license agreement has unduly or unreasonably restricted competition, the so-referred-to dominant issue vanishes. Respondents submit that this Court by its dismissal of the first Petition for Certiorari intended to put this case at an end.

If, however, in order to determine the jurisdictional question involved herein, this Court should desire to go further into what the record establishes with reference to disproving Petitioner's contention that Respondents have illegally used their patent or violated the Anti-Monopoly laws, the Findings of Fact and Conclusions of Law made and stated by the District Court [I, 20-26] clearly set forth the facts. The record herein is absolutely bare of any facts respecting any effect on the public of the challenged provisions of the license agreement.

Petitioner's Brief herein (p. 7) refers to a collateral motion. [VII, 1170-01.] This motion was that the Court of Appeals recall its mandate and decide the question of patent misuse set forth in appeal No. 11,122. In Petitioner's Brief accompanying this motion, Petitioner urged: "The procedure which this Court apparently intended to follow as manifested in its opinion of March 14, 1945 (148 F. (2d) 525) was to hold the appeal open until the

question of patent misuse could first be determined by the District Court." [VII, 1171.]

The decree of the Court of Appeals [R. VII, pp. 1168-9] contains no words reserving jurisdiction of the case. Respondents' attorney wired the Court of Appeals agreeing to submission of this motion without argument, stating:

> "* * * Will you please advise the Court that my position on motion is that if the Court intended by its original order to reserve jurisdiction on former appeal to review District Court decision on alleged patent misuse defense then Appellee has no objection to court so holding. However, in absence of any indic(a)tion in original order to that effect, I am of the opinion that Court has now no power to entertain motion to recall mandate. (Citing cases.) * * *" [R. VII, p. 1176.]

Thus the significance is clear that the Court of Appeals' order denying such motion is based upon its construction of its decree [R. VII, pp. 1168-9] that it did not intend to reserve jurisdiction on the case so that it "might review the decision of the District Court in that respect" (alleged patent misuse defense) as asserted by Petitioner [R. VII, pp. 1170-1]; that it was not the intention of the Court of Appeals to "hold open the appeal until the patent misuse could be first determined by the District Court" [R. VII, p. 1171]; and that the Court of Appeals did not order the "reopening of the case" (Pet. p. 7).

Conclusion.

It is respectfully submitted that the decision of the Court of Appeals dismissing for want of jurisdiction Petitioner's appeals from the District Court's order of June 5, 1945, should be affirmed.

Respectfully submitted,

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SUPREME COURT OF THE UNITED STATES

No. 755.—October Term, 1946.

Ira J. McCullough, Petitioner, *v.* Kammerer Corporation and Baash-Ross Tool Company.	On Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit.

[April 28, 1947.]

Mr. Justice Black delivered the opinion of the Court.

In an earlier phase of this patent infringement suit a patent owned by respondent Kammerer was held valid and infringed by the petitioner. An accounting for profits and damages was ordered. 39 F. Supp. 213. The Circuit Court of Appeals affirmed. 138 F. 2d 482. We granted certiorari to consider whether a license agreement between respondents Kammerer and Baash-Ross contained restrictions which were contrary to public policy and unlawful so as to bar recovery against petitioner. On oral argument of the case here it developed that no findings of fact had been made by the District Court on this issue, nor had the question been presented to or passed on by the Circuit Court of Appeals. We therefore dismissed the writ of certiorari. 323 U. S. 327.

On remand, the Circuit Court of Appeals did not disturb its original affirmance of the District Court's holding that the patent was valid and infringed. But on motion of the petitioner, the court amended its judgment of affirmance so as to authorize the District Court to "entertain a motion or motions . . . to modify or set aside its order or orders for . . . damages and accountings thereof, and take such action as it may determine" concerning pe-

titioner's contention that respondents' unlawful use of the patent should bar all recovery for infringement. 148 F. 2d 525, 526. Thereafter the petitioner presented a motion to the District Court in which he alleged respondents had, contrary to the public interest, used the patent to restrain trade, fix prices, and suppress competition. Relying on these allegations, petitioner asked the Court to stay the accounting and to render a final judgment dismissing the complaint on the ground that respondents had illegally misused the patent. Without introducing further evidence both parties submitted the motion to the District Court on facts already in the record. After an argument, the Court made extensive findings of fact against petitioner, concluded that his defense had not been established, and entered an order denying his motion to stay the accounting and to enter a final judgment dismissing the complaint. The Circuit Court of Appeals dismissed petitioner's appeal from the District Court's disposition of his motion on the ground that the District Court's order was "not a decree, final or otherwise." 156 F. 2d 343, 345. We hold that the appeal was erroneously dismissed.

The Act of February 28, 1927, 44 Stat. 1261, 28 U. S. C. § 227a, provides that "when in any suit in equity for the infringement of letters patent for inventions, a decree is rendered which is final except for the ordering of an accounting, an appeal may be taken from such decree to the circuit court of appeals. . . ." The object of this 1927 amendment to § 129 of the Judicial Code was to make sure that parties could take appeals in patent equity infringement suits without being compelled to await a final accounting. The reports of the Congressional committees on the measure called attention to the large expenses frequently involved in such accountings and the losses incurred where recoveries were ultimately denied

by reversal of decrees on the merits.[1] And see *Brick* v. *A. I. Namm & Sons, Inc.*, 21 F. 2d 179. It was for this reason that Congress authorized departure in this type of case from the usual practice under which appeals are not allowed until rendition of a final judgment which disposes of all phases of a controversy. See *Catlin* v. *United States*, 324 U. S. 229, 233.

Nor do the unusual circumstances under which this order was rendered make it any the less appealable. Whether or not the District Court would have had authority on its own motion to reopen the proceedings to consider the alleged misuse of the patent, see *Marconi Wireless Telegraph Co.* v. *United States*, 320 U. S. 1, 47–48, it was proper for it to do so after the Circuit Court of Appeals amended its judgment as it did. After reopening the

[1] The House Committee on Patents expressed the belief that the legislation "is needed to prevent a great burden of expense to litigants in actions to determine the validity of patents, where an accounting is involved. . . . Under present procedure appeals may be taken from the interlocutory decree upholding the patent but not until a full accounting has been made to the court. Under this bill such appeal can be taken from such interlocutory decree . . . so as to obviate the cost of an accounting in the event the case is reversed on appeal." H. R. Rep. No. 1890, 69th Cong., 2d Sess. 1 (1927).

The Senate Committee emphasized the same expense incident to conducting an accounting before the merits had been determined on appeal. It apparently went on the assumption that § 129 already authorized appeals prior to accounting from an injunction against infringement. It wanted to permit an appeal prior to accounting whether there was an effective injunction outstanding or not, even though a patent had expired making inappropriate an injunction against its continued violation. Sen. Rep. No. 1319, 69th Cong., 2d Sess. 1 (1927).

This case presents the precise situation which the Senate Committee thought the Act was designed to avoid in that it happens here that the patent has expired. But both reports indicate that the purpose of the Act was to permit appeals whenever everything but an accounting had been accomplished.

case, the District Court gave full consideration to the question presented by the motion and decided it upon the merits. See *Bowman* v. *Loperena*, 311 U. S. 262. There was then nothing that remained to be done except to conduct an accounting. Therefore, the resulting order falls squarely within § 129 as amended. The fact that the Court designated its action as an "order" rather than a "decree" is not of crucial significance. See Rule 54, Rules of Civil Procedure.[2] For though called an "order," its binding effect in disposing of the question before it is the same as though it had been entitled a "decree." Nor is the order rendered non-appealable because one appeal had already been taken, any more than it would have been had the first decree been reversed *in toto* and this order entered after the reversal. Since the order denying petitioner's motion for a judgment of dismissal of respondents' claim is, within the meaning of § 129, "final except for the ordering of an accounting," it is appealable.

Reversed.

[2] "'Judgment' as used in these rules includes a decree and any order from which an appeal lies." Rule 54, F. R. C. P.